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# ***JPRS Report***

## **China**

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# China

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## CONTENTS

27 JULY 1989

### POLITICAL

NPC Session Sparks Discussion of Political Reform .....	1
Scholars Discuss Democratization [SHIJIE JINGJI DAOBAO 27 Mar] .....	1
'Hope Lies With Democracy' [SHIJIE JINGJI DAOBAO 3 Apr] .....	2
Wang Ruoshui Critiques Mao Zedong's Cultural Revolution in 1979 Speech [Hong Kong CHING PAO No 3] .....	4

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Obstacles To Readjusting Industrial Structure [JINRONG SHIBAO 23 May] .....	8
Four Major Obstacles .....	8
Banks' Investigation Report .....	10
Strategy Propounded for Further Economic Reform [JINGJI YANJIU No 3] .....	12
Socialist, Capitalist Market Systems 'Blending' [JINGJIXUE ZHOUBAO 18 Jun] .....	21
'Government Should Withdraw' From Market Competition [JINGJI GUANLI No 4] .....	22
Issues in Forming Shareholding Enterprise Groups [JINGJI GUANLI No 4] .....	25
Symposium Explores Reform in Circulation Field [JINGJI RIBAO 30 Jun] .....	28

#### PROVINCIAL

Hunan Successes, Failures in Construction Investment [Changsha Radio] .....	29
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#### FINANCE, BANKING

Baoji City Improves Financial Market Procedures [JINGJIXUE ZHOUBAO 28 May] .....	30
--	----

#### FOREIGN TRADE, INVESTMENT

Official Discusses Problems in Foreign Trade Statistics [GUOJI MAOYI No 2] .....	32
Foreign-Brand Soft Drinks Threaten Local Brands [WEN HUI BAO 5 May] .....	33
Japanese-Funded Antenna Firm Begins Operation [CHINA DAILY 13 Jun] .....	34

#### AGRICULTURE

Agricultural 'Dilemma' Discussed, Solutions Proposed [JINGJI YANJIU No 4] .....	35
Provinces Set Price Guidelines for Agricultural Chemicals, Film [JINGJI RIBAO 11 Mar] .....	41
Increasing Agricultural Inputs, Readjusting Farm Prices [JINRONG SHIBAO 3 Jun] .....	45
'Misuse' of Capital by Grain Enterprises [JINRONG SHIBAO 16 May] .....	48
Output of Dairy Goods Declines [XINHUA] .....	49
Fertilizer, Pesticide Sales, Procurement [JINGJI CANKAO 10 Jul] .....	50
Silkworm Cocoon Procurement Rises [JINGJI CANKAO 2 Jul] .....	50
Guizhou Reaps 'Good Summer Grain Harvest' [XINHUA] .....	50
Heilongjiang Farmland Affected by Drought [HEILONGJIANG RIBAO 6 Jun] .....	50
Livestock Increases in Inner Mongolia [XINHUA] .....	50

#### SOCIAL

Scholars Voice Concern About Social, Cultural Climate [QUNYAN No 3] .....	52
Changes Urged in Classifying Counterrevolutionary Crimes [FAXUE No 3] .....	57
Legal Scholar Comments on Recent Controversies in Jurisprudence [FAXUE No 3] .....	59

**MILITARY, PUBLIC SECURITY**

Beijing Situation Deemed Unlikely To Lead to Civil War [Taipei LIEN HO PAO 9 Jun] ..... 63

**REGIONAL**

**EAST REGION**

Shandong Official Stresses Importance of Building Party [DAZHONG RIBAO 26 May] ..... 64

**TAIWAN**

Minister Delivers New, Official Version of '228 Incident' [TZULI WANPAO 22 Apr] ..... 72

## NPC Session Sparks Discussion of Political Reform

### Scholars Discuss Democratization

40050463a Shanghai SHIJIE JINGJI DAOBAO in Chinese 27 Mar 89 p 2

[Article by Dai Weicheng 2071 0953 1004: "NPC Deputies Less Than Assertive in Pushing for Political Democratization"]

[Text] Although the 2d Session of the NPC is said to be open to the public, like its previous meetings, this newspaper has again been denied permission to cover it, just as last year, a fact widely noted in the domestic and foreign press.

On the 4th day of the session, the Beijing office of this newspaper held a seminar to discuss the relationship between the second session and political democratization in China. Invited to attend were Gong Xiangrui [78905 4382 3843], professor of politics and law at Beijing University; Cheng Guangzhong [7115 0342 0022], vice president of the China University of Politics and Law and supervisor of doctoral candidates in administrative law; Sun Bingzhu [1327 3521 3796], professor of constitution; Yan Jiaqi [0917 1367 0366], political scientist; Yu Haocheng [0060 3185 2052], and Zhang Zonghou [1728 1350 0624], legal scholars; Chen Xiaoping [7115 1420 1627], deputy director of the constitutional law teaching and research section at the China University of Politics and Law; Zhang Shuyi [1728 2885 5030], director of the administrative law teaching and research section at the China University of Politics and Law; Du Feijin [2629 7378 6651], who is with the theoretical department of RENMIN RIBAO; and Dong Yuyu [5516 6735 3768] of GUANGMING RIBAO.

First of all, the experts thought that the convening of the second session amid difficulties, in contrast to the practice in the West of advancing or postponing a general election depending on changing circumstances, is a sign of confidence on the part of the ruling party and the government. Second, the government has admitted errors to the NPC deputies, another step forward. Incomplete reports by the mass media also indicate that voices of disagreement have been raised within the NPC. Some deputies complain that the government has failed to explain clearly the reasons for its mistakes and errors and why it let things go out of hand and that the NPC itself has not lived up to its supervisory role, views echoed by people of vision.

If we blame the mistakes merely on "overly rapid development, economic overheating, and impatience to come up with results," we would only be repeating ourselves. While the premier himself was aware of the problem of corruption, it was the only issue he had raised. In 1899, Britain passed the "Corruption Prevention Act." A similar bill was enacted in 1906, followed by yet another

related piece of legislation in 1916. After World War II, the Labor Party came into power and launched a sweeping program of nationalization. Rampant corruption forced the government to establish a "committee of inquiry" between 1974 and 1976, which spent 275,875 pounds to come up with a "corruption elimination act." China too has promulgated numerous laws. The result is that "orders are not carried out and prohibitions do not work." The problem is institutional. What is corruption when the constitution itself has no authority? If the problem is not tackled at its source, if we continue the old methods, things will only get worse. We should see that corruption is the externalization of absolute power.

The tendency at the meeting to pit political structural reform against stability and unity has aroused much public concern. NPC deputies seem to have forgotten that a more important responsibility than reviewing the government work report is promoting political democratization.

When people who should have the courage to speak out do not do so, things are really bad. Reviewing the lesson of the Cultural Revolution at the 3d Plenary Session, Deng Xiaoping said, "Silence is the most frightening thing." Lu You, a poet of the Song Dynasty, said, "When the emperor issues an order encouraging the free airing of views, we can expect peace and tranquillity in the land." A range of different opinions means more public responsibility and more available options. Experience tells us that a superficial "consensus" often hides serious differences of opinion. The government often hears the echo of its own voice, not the voice of the people or society. To a theoretician, anything that violates science cannot be tolerated. To a government policymaker, any arbitrary behavior including deafness to dissent cannot be tolerated. People in power should even put up with grumbles graciously.

Another matter that has raised some concern relates to the increase of authority. One is not sure who plays the major role and who plays the minor role at the second session of the NPC. Also, the parliamentary procedures (draft) confer extraordinary powers on the presidium of the session. Actually every deputy has equal power. Members of the presidium are no exception. Legislative thinking in this area still seems a little immature.

There are two hallmarks of democracy: people choosing top national leaders and determining basic state policies. Certainly this cannot be achieved overnight, but we should move toward this objective. It is a dangerous idea to think that political structural reform can be put on hold temporarily if necessary. To achieve a short-term objective like curbing inflation, the government is ready to pay any price. What criteria should this price meet? Who are to determine such criteria? Perhaps by sacrificing the common people's basic human rights? Or by sacrificing the legal environment so painstakingly created over a decade? Or... China has been paying a heavy price endlessly. Today, however, the NPC should have



the final say on what the price should be and whether it is worth paying. At this critical juncture, the second session should play a critical role. Political structural reform should move toward the rule of law.

**'Hope Lies With Democracy'**

40050463 Shanghai SHIJIE JINGJI DAOBAO in  
Chinese 3 Apr 89 p 11

[Article by Zhang Weiguo 1728 0251 0948: "Yan Jiaqi Calls for the Replacement of Revolutionary Politics by Democratic Politics"]

[Text]

**Wanted: A Political Responsibility System**

What is really wrong with China? Deputies to the latest session of the NPC have expressed a variety of opinions. People of vision watching the event closely have also come forth with their own comments. Yan Jiaqi, the political scientist, disagrees with the notion that NPC deputies are of a low caliber. A former people's deputy from Beijing and currently a people's deputy from Dongcheng district, Yan Jiaqi has found that most deputies are quite capable and fairly well educated and have a good understanding of social problems. Nor are they inarticulate during the meeting. Some NPC deputies are leaders in a locality or unit. Others have outstanding performance in a particular field. While some "advanced individuals" and "models" do not live up to their billing, in general the deputies are competent people.

Then what is really wrong with China? Yan Jiaqi thinks that it is the absence of a clear-cut and sound political responsibility system. "What is political responsibility? Usually deputies to elected representative bodies and government officials who are elected or appointed by those who are elected are held politically responsible. Under a political responsibility system, people's deputies or government officials may be voted out of office in the next election or will not be reappointed once they have lost the confidence of the voters or representative bodies even when they have not broken the law or neglected their duties. Voters and representative bodies can recall incompetent deputies or top officials in government organs. People's deputies and certain members of government assume 'political responsibility' by virtue of the fact that they may be voted out of office, dismissed, or recalled. Because the Constitution, the government organic law, and the election law explicitly provide for the creation of people's deputies and the appointment and dismissal of leading members of government, this kind of political responsibility is also a form of legal responsibility in a sense."

Under the Constitution, the NPC is the highest organ of state power. But we all feel that this is far from true in fact. Yan Jiaqi points out that the problem lies in the way NPC deputies come about. NPC deputies are not directly elected by voters. When a voter casts his "sacred

vote," he is electing a district, county, township, or town deputy. A person who is not elected at the county level can be a deputy to the provincial People's Congress and even a deputy to the NPC all the same. The majority of NPC deputies are not even nominees in district, county, village, and township elections. So the voters' "sacred votes" actually have no effect on who becomes a NPC deputy. The election law provides that political parties and private organizations may jointly or singly nominate a candidate to stand for election. In addition, 10 voters or deputies may jointly nominate a candidate. Yan Jiaqi has taken part in the election of deputies to the municipal People's Congress by the Dongcheng District People's Congress as well as the election of deputies to the NPC by the Beijing People's Congress. He has discovered an important fact about Chinese politics: Ninety-nine percent of the candidates on the "list of predetermined candidates" are elected, while only 1 percent of candidates jointly nominated by 10 or more deputies are elected. This is true not only in Beijing but throughout the nation.

Why? To explain it clearly, one would have to write a lengthy article. Article 76 of the Constitution stipulates that NPC deputies shall maintain close ties to their "original electoral units" and the people. What is the "original electoral unit?" Not the voters, but the provincial People's Congress concerned. Since the election law does not provide an open and well-defined set of procedures for nomination by "political parties and private organizations jointly or singly," what deputies to the provincial People's Congress have when they select NPC deputies is a ready-made list of candidates of unknown origins. As a result, the 3,000 deputies to the NPC are elected only in name. In fact they are "predetermined." How can deputies who emerge in this manner be responsible to the "voters"? Such a deputy does not even know what his electoral district is, with which he is supposed to maintain close contacts. During the Cultural Revolution, the NPC became a "rubber stamp" in name and in fact. At the 4th NPC in 1975, the 2,864 deputies unanimously adopted an absurd Constitution imposing "comprehensive dictatorship" on the people. Who would have had the courage to abstain or cast a negative vote? Things have changed since the Cultural Revolution. Many deputies have been expressing their opinions frankly. The Constitution provides that deputies not be held legally responsible for the speeches they make and the views they express at NPC sessions. But they still labor under one constraint: Whether they remain deputies to the next NPC will be decided not by the voters, but by a closed system of nomination. The indirect election of NPC deputies and the "absence of an open, well-defined system of nominating candidates" make it difficult for countless NPC deputies to discharge their political responsibility to the voters. How can a national People's Congress created under these circumstances really function as the highest organ of state power?

### From Revolutionary Politics to Democratic Politics

Yan Jiaqi thinks that "revolutionary politics" in China should be transformed into "democratic politics." "Revolutionary politics" is politics that takes "class struggle as the key link." It has played a necessary role in history. "Democratic politics" is politics based on "constitutional and legal authority." The CPC is the ruling party today, but it is still wedded to the "inner party struggle" characteristic of an "underground party" in "revolutionary politics." The overthrow of Peng Dehuai [1756 1795 2037], Peng Zhen [1756 4176], Luo Ruiqing [5012 3843 0615], Lu Dingyi [7120 1353 0001], Yang Shangkun [2799 1424 2492], Liu Shaoqi [0491 1421 1142], and Deng Xiaoping after 1949 differed little from the overthrow of Qu Qiubai [4234 4428 4101], Li Lisan [2621 0500 0003], and Wang Ming [3769 2494] before 1949. For 60 years inner party struggles, which recognize no rules and follow no procedures, went on. Although it has become a ruling party, the CPC remains attached to the inner party struggle of an "underground party." During the past 6 or 7 decades, this underground-party style of struggle has resulted in the downfall of group after group of people, followed by their "rehabilitation" one after another. How then can people afford to think about modernization? The phenomenon of endless uninstitutionalized inner party struggles controlling the nation's destiny cannot go on. We must firmly change revolutionary politics into procedural, responsible democratic politics and sincerely put the establishment of inner party democracy and national political democratization on the agenda.

Everyone makes mistakes. We cannot continue to practice Mao Zedong's "perfect-man politics." It is normal for a person to make mistakes and to misspeak. But a "political responsibility system" must be established. When the mistake is not very serious, one can correct it. Some mistakes are unavoidable and the people will forgive one for making them. When the mistakes are serious, one should be dismissed, voted out of office, or recalled even if one has not broken any law.

Yan Jiaqi emphasizes that as a ruling party, the CPC should convert its policies and principles into the law of the land and the policies of the nation through constitutionally prescribed procedures. The party cannot replace the government and run the state. First and foremost, political responsibility means people's deputies being accountable to the voters. Next, the government must be held accountable to the people's congress. So many problems have appeared in China over the years: the Great Leap Forward, the Cultural Revolution, upheaval after upheaval, adjustment after adjustment. It is normal, of course, for the government to adjust its policies as objective conditions change. But we must be able to pinpoint political responsibility. The leaders must assume political responsibility when things go wrong. We cannot just blame the "collective leadership." Someone must be held responsible. When the party replaces

the government, the buck stops with the party leader. When laws are not carried out and prohibitions do not work, modernization is out of the question.

In a society governed by law, people in power can exercise only those powers conferred on them by law. The problem now is that some provincial governors, provincial party secretaries, and even the heads of some central bureaus insist on interfering in affairs that clearly fall within the jurisdiction of a county chief. The county chief is accountable to the county People's Congress, but his nomination is in the hands of the provincial party secretary. Under these circumstances, the county chief has no choice but to tailor his decisions to meet the wishes of the party secretary. As for "political responsibility," that is not something he can afford to worry about. In a society with no concept of the "rule of law," the tendencies to "depend on instructions from above" and violate the decisionmaking authority of another person go hand in hand.

In the future, Yan Jiaqi believes that China must continue to rely on political reform, economic reform, and an open policy. Economic reform is like a large ship at sea. It faces two unresolved fundamental problems. First, where is it going? There does not seem to be a clear destination. How is the ownership system to be reformed? How do we reconcile planning with the market? Can traditional public ownership coexist with a highly market-oriented economy? These are vital issues, but we have never taken a clear position on them. Even the issue of whether we should recognize "property rights" as a basic civil right in the absence of privatization does not seem to have a clear answer. Second, the ship may run into a storm in its voyage. That is quite normal. But people panic. The reason is that the people at the helm practice "multihead policymaking," so there is no clear-cut political responsibility system. In a huge country with 1 billion people, when the central government follows a "winter policy," some localities may still be pursuing a "summer policy" or "spring policy." This kind of "politics of swing," which could be found in the history of other nations, is the result of "multihead policymaking" and the absence of a system of political responsibility. Under democratic politics, the government should be able to enforce its orders and make its prohibitions stick. Under democratic politics, administrative power should be centralized, but it should also be subject to constitutional and legal limits. The fragmentation of state power is the product of the absence of a system of political responsibility.

### Political Reform in China in the 1990's

It is foreseeable that political reform in China in the 1990's will consist of two important parts: "constitution writing" and "direct election." The constitution is not a basket into which you can cram everything. Multiparty cooperation centered on the CPC is an important system

in China, but it should not be written into the constitution. Similarly, things like "great tasks," economic policy, and diplomatic policy cannot be written into the constitution either. A constitution is not a summary of all the important institutions of a nation. A constitution is written to protect the basic rights of the citizen, to prescribe a framework for the regime, and to stipulate the organization of state organs. It is a record of a nation's most bitter experiences. When a generation passes from the scene, it takes with it the painful lessons it has learned. The function of a constitution is to lay down basic rules concerning the preservation of civil rights and the political system and other most fundamental issues so that people will never forget them. (A constitution, of course, can be amended.) The direct election of NPC deputies is pivotal to the introduction of democratic politics in China. It holds the key to the establishment of a clear-cut and sound political responsibility system. Hence we must now study constitutional theory anew and consider what should be written into the constitution. To steer revolutionary politics toward democratic politics, we must establish the supreme authority of the constitution. To do that, we must do some serious constitution writing. The aim is to come up with an authoritative constitution that will enjoy long-term stability and whose provisions are consistent with reality.

Needless to say, laws still have to be enforced. We must multiply our efforts to expand legal education, train legal personnel, step up legal construction, and popularize the concept of the "rule of law." China's hope lies with democracy and the rule of law.

The best and brightest of China are concentrated in the CPC. The party should have full confidence in its staying power as a ruling party, confidence that can be manifested by carrying on reform and the open policy and in its firm resolve to push ahead with political democratization. Yan Jiaqi's ideas represent the wishes of many Chinese intellectuals.

#### **Wang Ruoshui Critiques Mao Zedong's Cultural Revolution in 1979 Speech**

40050375a Hong Kong CHING PAO [THE MIRROR]  
in Chinese No 3, Mar 89 pp 66-69

[Article by Wang Ruoshui 3769 5387 3055: "An Important Lesson of the 'Cultural Revolution' Is That We Must Oppose the Personality Cult"]

[Text] *This article is a speech delivered by Wang Ruoshui, a famous Chinese philosopher and former assistant editor in chief of RENMIN RIBAO, at a theoretical work conference convened on 13 February 1979. The author submitted the manuscript to this journal for exclusive publication. The text, which totals 18,000-plus characters and is based on many historical materials that have rarely been seen, provides a detailed analysis of why and how Mao Zedong launched the Cultural Revolution.*

*The text in effect criticizes Mao, especially his personality cult and his leftist statements and hostility to intellectuals. The criticism retains important realistic significance today. Therefore, we publish the text exclusively in this and the next issue for readers.*

#### **The Cultural Revolution Was Initiated and Guided by Mao and Mao Alone**

In discussing this issue, we first of all encounter the problem of "proper handling." What is "properly handling"? I believe that the report of the 3d Plenary Session [of the 11th Central Committee], which said, "historically, scientifically, and pragmatically handle," constitutes proper handling. Conversely, the previous practice, which clearly insisted on calling bad things good, is not properly handled, nor is cultism properly handled.

The Cultural Revolution was a gigantic catastrophe for our party and our people. This was caused primarily by the destruction by Lin Biao and the gang of four. However, how could just a few people throw a great nation of 800 million people and a great party of 300,000-plus members into such utter chaos? Given Mao Zedong's insight, how could their plot not be discovered and smashed, and how did they instead manage to use the banner and prestige of Chairman Mao to do so many bad things? This requires explanation.

The Cultural Revolution was a vast political movement that engulfed the Chinese mainland for as many as 10 years. According to Marxist theory, this kind of political movement has to be explained in terms of economics. However, the several years before the Cultural Revolution were pretty good economically, and the people were pretty satisfied. Economically, this necessity was not apparent. Politically, since the Cultural Revolution was a revolt against capitalist roaders, the people had to have been oppressed, for only oppression engenders revolt. However, the masses did not feel this way and by no means felt the need for revolution. The common feeling was that if everything was so wonderful, why was there suddenly a Cultural Revolution? Now we all say that the Cultural Revolution was launched and led by Chairman Mao himself; no one has ever said that the revolution was launched and led by the party. Indeed, that is the way it was. The Cultural Revolution was launched and led by Chairman Mao alone. What did this movement want to achieve? What did the criticism of "Hai Rui Dismissed From Office" aim to accomplish? Originally, everything was secret. Perhaps only Lin Biao, Jiang Qing, and a handful of others knew the whole story. The broad mass of party members, including leadership comrades generally "did not comprehend at all." Later, many people (including myself) thought that they understood but they did not. Well, then, why did Chairman Mao insist on launching the Cultural Revolution? How was Chairman Mao able to launch the Cultural Revolution?

### **Mao Zedong Incorrectly Evaluated the Situation Prior to the Cultural Revolution**

The report of the 3d Plenary Session stated that, in launching the Cultural Revolution, Mao Zedong proceeded primarily from the desire to oppose and prevent revisionism, which he believed the Soviet Union was practicing. There is nothing wrong with opposing and preventing revision. The issues are: What is revisionism? And how does one evaluate the danger of revision?

In a conversation with Edgar Snow at the end of 1970, Chairman Mao revealed some of the details of his launching of the Cultural Revolution. Snow asked: "When did you clearly feel that Liu Shaoqi had to be done in politically?" Chairman Mao answered: "In January 1965, the 23 articles were published, the first of which stated that the goal of the four cleanups movement was to attack the people in authority within the party who were following the capitalist road. Liu Shaoqi opposed it right on the spot."

Leaving aside the question of whether or not the concept of "following the capitalist road" is scientific, this after all is a new concept—Marx and Lenin never mentioned it—one cannot say it is a basic principle of Marxism, and thus opposing it does not constitute "revisionism." Moreover, expressing different views is permitted when documents are discussed. A mere expression of dissent cannot constitute a reason to do an individual in (even though he was also the vice chairman of the party) politically. Did not Chairman Mao say that we must unite with those who have opposed the people whom we ourselves have wrongly opposed? Only revisionists cannot be united with, and Chairman Mao believed that anyone who disagreed with him was a revisionist.

In this conversation, Chairman Mao also talked about educators, saying, "We didn't have any college professors, middle school instructors, or primary school teachers and we used the Kuomintang [KMT] for all [these positions], which means that the KMT is in control there. The Cultural Revolution was designed to excise them." It seems that Chairman Mao did not know that we had trained a large number of teachers in the 17 years since the founding of the PRC; the vast majority of even the old teachers from before liberation had undergone considerable changes in thinking. Nevertheless, Chairman Mao considered all teachers to be the KMT's and wanted to excise them.

Chairman Mao also discussed the situation in the party: "At that time, I could not control party authority, propaganda work authority, party authority in the provinces, and authority in the localities, such as over the Beijing party committee. So at that time, I said that I did not care about the cult of the personality and that, on the contrary, we needed a little of this cult."

### **Mao Considered All the Intellectuals as KMT's**

This was Chairman Mao's appraisal of the situation at that time. He repeatedly restated this appraisal at other venues. For example, at the March 1966 enlarged meeting of the Politburo Standing Committee he said, "Bourgeois intellectuals are now controlling academic and educational circles, and the deeper the socialist revolution advances the more they resist and the more they reveal their antiparty, antisocialist stand. Even though Wu Han, Jian Bozan, and others are Communist party members, since they also oppose communism they are in effect KMT's."

In explaining at the 1st Plenary Session of the 9th CPC Central Committee why the Cultural Revolution was necessary, Chairman Mao said, "The leadership authority of a great majority of factories is not in the hands of true Marxists and of the workers." Of course, Chairman Mao added a positive note: "That is not to say that there are no good people among factory leaders." This statement sounds strange today. In our view, what should be said is "it is not that there are no bad guys." But if it is the KMT, then it is proper to say "it is not that there are no good people."

In his 16 May directive, Chairman Mao also said that there was a group of "antiparty, antisocialist bourgeois agents in the center, in central agencies, and in the provinces, municipalities, and autonomous regions." These people "have sneaked into the party, into the government, the army, and the cultural circles of all kinds" and "try to seize power whenever times are ripe, transforming proletarian dictatorship into bourgeois dictatorship."

Since there were such groups of bourgeois agents in the party, the government, and the army agencies, from the central government seat to all the localities and front lines, together they constituted not a mere handful but a big bunch. Since most of them occupied leadership posts, they already controlled considerable power. Their next step could only be a seizure of all power. Lin Biao's speech of 18 May 1966, distributed with Chairman Mao's approval to the entire party, read:

"Over the past several months, Chairman Mao has paid special attention to prevention of a counterrevolutionary coup, adopted many measures to this end. He also mentioned this problem after the Luo Ruiqing incident occurred. Chairman Mao also discussed the issue after the recent Peng Zhen incident. Troops were sent out to prevent a counterrevolutionary coup and from occupying our strategic positions, television stations, and radio stations. The army and the public security system have made their deployments. Chairman Mao has made a big issue of this over the past several months... and has not slept well for many nights because of this matter."

Chairman Mao's assessment of the situation was soul-stirring, and Lin Biao's speech was sensational, but we all believed them at the time. Only because we believed all this did we believe in the necessity of the Cultural Revolution. In a letter to Jiang Qing, Chairman Mao said that he agreed to distribute Lin's speech against his own better judgment. But was the speech rumor-mongering? If it was, then it should have been refuted, but Chairman Mao did not do that. Moreover, Chairman Mao also devoted a large section of the letter to a discussion of a rightwing coup, clearly showing that he definitely was worried about this matter.

Not only did Chairman Mao believe that many bourgeois agents had sneaked into party leadership organs, he also believed that the entire party was no good anymore. At the 1st Plenary Session of the 9th CPC Central Committee in 1969, he said that, after entering the cities, "Our party has not been so good, so some foreigners and news reporters say our party is being rebuilt, which is the slogan we ourselves now use; we call it party consolidation and building. In fact, rebuilding is needed."

The "33 points" of 1965, however, said "the CPC is a glorious, great, and correct party." These were the words of Chairman Mao himself and were denied by Chairman Mao himself later. The party was not glorious, not great, and incorrect. It was a bad party, so bad that it required rebuilding—overthrow and regeneration.

In 1957, anyone who denied the glory, greatness, and correctness of our party definitely would have been labeled a rightist. Our dispute with the rightists at that time was over whether or not success was the major thing. However, by 1966, our 17 years of success were denied, our party was said to have become revisionist, it was said that we must smash this and that, and this kind of person had become leftist. Why did such a great change occur? Because Chairman Mao in 1957 had closely linked himself and the party until 1966, when he no longer thought this way. He believed that he could no longer control the party, that party authority was no longer in his hands, and that no one revered him any more. Thus he was not responsible for any of the shortcomings and mistakes within the party. The rebels of that time were able to wantonly attack the party and to claim that the 17 years were black through and through and not good at all and did not have to worry about being labeled rightists—so long as they blamed all of this on Liu Shaoqi.

I do not mean to say that everything was absolutely wonderful or that there were no problems whatsoever in the party prior to the Cultural Revolution. There *were* problems. All slanderous and untrue political attacks on leading cadres—such as taking the capitalist road, renegadeism, spying, and counterrevolutionary revisionism—should have been repudiated. But, except for this, errors in work were unavoidable. Other things, except the untruths and exaggerations that were exposed in the big character posters of the Cultural Revolution—such as

use of special privileges, bureaucratism, extravagance and waste, widespread construction of office buildings, large halls, and hostels, what-I-say-goes-ism, and other problems in work and lifestyle—probably were true. Even today, we still need to oppose these things. But in resolving these problems we certainly could have used the effective approaches and rectification measures that the party had practiced for many years. Chairman Mao did not employ these measures and instead resorted to the Cultural Revolution because he believed that the problem was not one of contradictions within the party or among the people but between the bourgeois and proletarian classes and between the KMT and the CPC. To overthrow Liu Shaoqi's alleged bourgeois headquarters, which was totally nonexistent, [Mao believed he had to] launch a "great political revolution" and to seize power on a national scale. After the "January revolution" occurred in Shanghai, Mao said this revolution constituted the "overthrowing of one class by another." That is correct. But which class was overthrowing which?

I believe that the Cultural Revolution was a wrong revolution that employed the wrong means to attack the wrong targets.

#### In 1957 Mao Revised His Own Thinking

If we compare Chairman Mao's assessment of class struggle in 1966 with his view in 1957, we discover that he revised his own thinking.

In 1957, he asserted:

"The large-scale, stormy, mass class struggle of the revolutionary period basically has ended."

"Counterrevolutionaries remain, but are not numerous."

These statements are from "On the Correct Handling of Contradictions Among the People," a report which drew on the lessons of Stalin's expanded purge of counterrevolutionaries. "A Rediscussion of the Historical Experience of Proletarian Dictatorship" even criticized Stalin, saying that the latter should not have "continued to emphasize intensification of class struggle, thereby hampering the healthy development of socialist democracy." These two statements by Chairman Mao were correct assessments of class struggle following basic completion of the socialist transformation of ownership of the means of production, were both anti-"leftist" (that class struggle was becoming more and more intense and that counterrevolutionaries remained numerous) and anti-rightist (that class struggle was completed and that no more counterrevolutionaries remained), with the focus on the former.

This report was written on 27 February 1957 and issued publicly 19 June the same year. At this time the anti-rightist campaign had already begun. Chairman Mao made some changes to the report that strengthened the

attack against and emphasized the point that the ideological struggle between the proletariat and the bourgeoisie is protracted, tortuous, and, from time to time, even intense. This change naturally was to prevent the report from being too out of tune with the antirightist struggle of the time. On the other hand, however, Chairman Mao still retained the language "class struggle basically has ended" but did add the modifiers "large-scale, stormy mass" and "of the revolutionary period" (which were absent in the original text) to restrict the wording "class struggle basically has ended." Nevertheless, the overall tone of the report remained more anti-"leftist" than antirightist, which gives the following general impression: Although the process would be tortuous, the large-scale class struggle of the "revolutionary period" was, in the final analysis, basically over, and a new period, in which we had to "properly handle contradictions among the people so as to unite all the ethnic groups of the entire nation to effect a new struggle—the war against nature," had begun.

Nevertheless, the antirightist struggle grew and exceeded Chairman Mao's initial thesis. Not only was their struggle "intense," but also to such a degree, that Chairman Mao himself admitted it was "stormy."

Just when it was announced that the large-scale, stormy, class struggle was basically over, another one took place. What did this development imply? Was Chairman Mao's thesis wrong? Or was it that the antirightist struggle went too far? It is now very obvious that the antirightist struggle had expanded.

A negative effect of the struggle was that from that point on many intellectuals no longer dared to speak and to

criticize shortcomings in the party's work. When the campaign urging an airing of views was inaugurated initially, it was said that "speaking out is not a crime" and that "there can only be an unleashing, not a crack-down." Later, in fact, there was a crackdown, and speaking out was treated as a crime. Chairman Mao explained this development as follows: "They did commit crimes; 'speaking out is not a crime' is not applicable to them. They not only spoke out; they also acted." But in fact many people who only spoke out but did not act were deemed to have committed crimes and were labeled rightists. Chairman Mao himself said, "Another kind of rightist is one who speaks but does not act."

In fact, this evolved into "fishing" or "luring the serpent from his lair," an approach that was employed many times thereafter and has made many people still tremble with fear, filled people with apprehension, and prevented people from believing that we are truly practicing democracy now. The fact that the masses dare not criticize the party is very harmful to the party and is very dangerous. Even Chairman Mao, during the antirightist struggle, said, "Most of their (referring to bourgeois intellectuals and intellectuals who had served the old society) criticisms of us are correct and must be accepted. Only a small portion are incorrect and should be explained. Their demand that they be trusted and be given positions is correct; we must trust them and give them authority and responsibility. Some of the criticism raised by the rightists is correct; we cannot deny all of this criticism." Regrettably, this correct criticism was by no means truly accepted. Only now, after more than 20 years, can we begin properly to carry out the policy on intellectuals proposed by Chairman Mao in 1956 and 1957.

## NATIONAL AFFAIRS, POLICY

### Obstacles To Readjusting Industrial Structure

#### Four Major Obstacles

40060632a Beijing JINRONG SHIBAO in Chinese  
23 May 89 p 3

[Article by Zhong Pengrong 6988 2590 2837: "Four Major Obstacles to Readjustment of Industrial Structure"]

[Text] The question of the industrial structure is in essence a question of the flow of funds. The direct cause of the instability of the industrial structure is the instability of the flow of funds. Readjustment of the industrial structure will cause more funds of all quarters of society to be put into bottleneck departments and less investment into industries of slow-selling products. However, the flow of funds is decided by a series of economic conditions. Before these economic conditions change, to try by administrative methods to change the flow of funds and then proceed to readjust the industrial structure—this is quite difficult. According to this writer's observations, at present in the readjustment of China's industrial structure there are at least four major obstacles.

#### First, the Obstacle to Readjustment of the Structure Posed by the Revenue-Sharing System

Since 1980 the system of successive layers of revenue sharing has been practiced in China's finances, and in some localities there is even revenue sharing at the township level. After the revenue sharing system was put into effect, governments at all levels had to increase their expenditures and could no longer get funds from the higher level; they could only depend upon opening up by themselves new sources of revenue. The biggest source of China's financial revenue is industry. In 1985 the financial revenue from industrial departments accounted for 64 percent of the total financial revenue. Because the agricultural tax revenue is relatively stable, an increase in financial revenue mainly depends on industry. Therefore, faced with the reality of constant increases in expenditure, governments at all levels must make an effort to set up industries.

What kind of industries should be set up? Processing industries, of course. There are three reasons for this: 1) in processing industries, prices are high and profits larger; 2) results of investment in processing industries are seen quickly; and 3) in a given place there are certain raw materials that can be processed. Formerly these raw materials were taken away by the state at low prices, but by having processing industries themselves, the governments can demand that the state reduce the amount of raw materials it takes out.

A large number of processing industries have been started up, but the energy, raw materials, and other basic industries have not been correspondingly developed.

Faced with this reality, and considering the problem from the angle of the effective use of resources, we should close down a number of low-efficiency enterprises that have been built and pigeonhole a number of projects now being built, and provide the limited energy and raw materials to those enterprises that are highly efficient. This was precisely the original intention of the industrial policy formulated by the state. But, considered from the angle of revenue sharing, it seems that we cannot do this, because the low-efficiency processing industries and investment projects are objectively unnecessary but, for the finances of a county or prefecture, indispensable. In line with the state's industrial policy, all the industries and investment projects of some counties and prefectures should be closed down or pigeonholed. But, after they are closed down or pigeonholed, where will the financial revenue come from? Now that the state, while carrying out its industrial policy, cannot give corresponding financial subsidies to these counties and prefectures, for their own survival they cannot but give protection, by all ways and means, to these industries and investment projects. This situation has already become a major obstacle to readjustment of the structure.

#### Second, the Obstacle to Readjustment of the Structure Posed by the Investor's Short-Term Behavior

As for the private investor, his investment decisions mainly depend on the expected profit level, and the time limit for getting the profit is less important. China's investments of a productive nature are mainly decided by government leaders and enterprise managers. When making investment decisions, although they also emphasize the expected profit on an investment, they put more emphasis on the time limit for getting the profit. As for the government leaders, every government has a certain term of office, and naturally the leaders hope to be able to see the results within their term of office. Only in this way can their own policies be fully reflected. Otherwise, even if the expected profit on an investment is made larger, it is just a case of making a living by working for others. As for enterprise managers, because the contract system has been universally put into practice and the contract time limit is usually 3 to 5 years, the managers hope that the investments will see results within their own contract period in order to fully reflect the results of their own management and the fairly large profits they have brought in.

This short-term behavior on investment by government leaders and enterprise managers, to a certain extent, decides the basic flow of China's working capital for construction. This flow is mainly to the processing industries, which get fast results, and not to energy, communications, and other departments, where the construction period is long. Without a doubt this kind of short-term behavior and the flow of funds decided by it are currently another obstacle to the readjustment of the industrial structure.



### **Third, Obstacle to the Readjustment of the Industrial Structure Posed by the Distortions of the Price System**

An important indication of the distortions of the industrial structure in recent years is that the speed of development of the processing industries has been extremely fast while the development of communications, energy, and raw materials departments has been relatively sluggish. The distortions of the industrial system and the distortions of the price system are closely related. For a long time the prices of China's communications, energy, and raw materials have been on the low side, causing the profit level of these departments to be much lower than that of the processing industries. Taking the independent accounting industrial enterprises ownership by the whole people in 1987 as an example, we see that the tax rate on every 100 yuan of funds was minus 1.91 yuan in the coal mining industry, 7.75 yuan in the building materials industry and other nonmetallic mining industries, 88.02 yuan in the petroleum processing industry, and 21.84 yuan in the textile industry.

Under the circumstances in which investments are mainly geared to central plan decisions and state budget appropriations, the distortions of the price system and the great disparities in profit that they cause do not have much effect on the flow of funds. Since the reform began, the main part of China's investments has been decentralized, and in-plan investment, as a proportion of the entire fixed assets, has fallen correspondingly. By 1984 this proportion had fallen to 13.1 percent. After the main part of the investments and the sources of funds were decentralized, the profit rate became the important deciding factor for funds outside the plan. Although between the investment return period and the expected profit rate the investor sets more store on the investment return period, under conditions in which these periods are identical, no matter whether it is the local government or the enterprise, it will want to put funds into high-price, big-profit industries. As was said before, energy and other departments with fairly long investment return periods, even if in them the expected profit rate is higher than that of the processing industries, it will want to select the latter. Because of the distortions of the price system, the communications, energy, and other departments not only have return periods that are longer than those of the processing industries, their expected profit rate is much lower than that of the processing industries. This causes the energy, communications, and other basic industries to have even less attraction for funds outside the plan.

### **Fourth, Obstacle to Readjustment of the Structure Posed by Consumer Demand Inflation**

That the growth in electrical power and the growth in domestic electrical appliances are extremely out of line with each other is an important aspect of the distortions of the industrial structure over the past several years. Comparing 1978 with 1986, in China there was a growth of 10.6 percent in the amount of electricity generated, but the growth in the number of domestic refrigerators was 78.4

percent and of domestic color television sets was 62.3 percent; comparing 1987 with 1988, there was a 9.2-percent growth in the amount of electricity generated, but the growth in the number of refrigerators and color television sets was respectively 84.4 percent and 52.8 percent.

The lopsided development of domestic electrical appliances is the result of the lopsided inflation of consumer demand. From 1978 to 1987, China's income in renminbi increased from 193.8 billion yuan to 696.9 billion yuan, an average annual increase of 17 percent. Consumer demand in the form of currency as a proportion of the national income rose from 59 percent in 1978 to 87 percent in 1987. <sup>1</sup> The inflation in China's consumer demand occurred within the supply system or semisupply system in which there was a large amount of the basic means of subsistence. At the same time as the rapid increase in renminbi income, the housing, water, electricity, medical treatment, food, and other basic consumer goods of staff and workers in cities and towns were either supplied free or practically free. Therefore, the increased income in money was mainly used to buy domestic electrical appliances—a narrow domain of payment—causing the demand for domestic electrical appliances to grow faster than the general consumer demand. The inflation in the demand for domestic electrical appliances caused the lopsided development of domestic electrical appliances industries.

Since last year domestic air conditioners have become the object of people's scramble to buy.

From a look at China's current economic condition, we see that we basically cannot maintain so many domestic electrical appliances. Many rural households now buy television sets, but in many localities electricity is supplied for only several days a year. It is more apt to say that they have bought piles of scrap iron than to say that they have bought television sets. In the cities the residents' use of electricity depends on the enterprises, which provide it for 5 hours and then shut it off for 2 hours, and even provide it for 3 hours and shut it off for 4 hours. If electricity is always supplied like this, in one day we must watch television with bare bottoms and hungry bellies. Therefore, we must limit the further development of domestic electrical appliances, so that their level of development, the level of development of electric power, as well as the level of development of the entire economy are in line with each other.

However, domestic electrical appliances are developed under the powerful pull of demand. Until consumer demand is kept within limits it will not be all that easy to limit the development of domestic electrical appliances. Although we can, by administrative methods, reduce the supply to these departments of funds, foreign exchange, and raw materials, the vigorous demand creates big profits in the production of these products. With these big profits the producer can use the high profit rate to raise funds, use the high foreign exchange rate to get foreign exchange, and use the high prices to buy energy and raw materials.



### Fundamental Measures for Removing the Obstacles

The above-mentioned four factors are the source of the serious distortions of the current industrial structure, and they also produce the obstacles to a future readjustment of the structure. Behind these four factors are two basic systems that play a decisive role, namely, the state's ownership of the means of production and the double-track price system.

In their short-term behavior on investment decisions, the government leaders and the enterprise managers, are derivatives of the state's ownership of the means of production. Under the conditions of state ownership, no matter whether it is the government leader or the enterprise manager, he will get certain advantages from these decisions. Through the increase in financial revenue by investment within his term of office, a government leader can increase output value and his official achievements; an enterprise manager can, by increasing profits within the contract period, go on to increase his own income. However, neither one of them can enjoy all the investment benefits of an owner. If state ownership were changed to the shareholding system, the one making investment decisions would not be the government leader or the enterprise manager, but rather the shareholder. A shareholder's investment decisions are mainly based on the expected profit rate. At this time, energy, communications, and other departments with fairly long profit-earning time limits, provided the profit level is high, usually have an attraction for society's funds.

Over the past several years, China's consumer demand inflation has not been directly caused by macrodecisions but by the state's ownership of the means of production. Under the conditions of state ownership, an enterprise's accumulated retained profit is the state's and what is left is its own. Therefore, no matter whether it is the manager or the staff member and worker, he will tend to take all the retained profits. In recent years, although the state has time and again stressed that it wants to use 60 percent of the retained profit for the development of production, in reality more than 80 percent of the retained profits in all enterprises in China are used for bonuses and welfare. Many enterprises not only take retained profits as much as possible, but do it in various ways, turning the enterprise's fixed assets and working capital into bonuses. This is precisely the source of the constant inflation of consumer demand in recent years. Putting aside the discussion of the amount retained, if the newly added assets of an enterprise's profits were owned by the enterprise manager and the staff member and worker, the accumulation would no longer be the state's but the manager's and the staff members and workers'. In this way the inflation in consumer demand in the entire society could be fundamentally eradicated, and the lopsided development of domestic electrical appliances, which is caused by the inflation in consumer demand, would be automatically contained.

The third part of this article analyzes the relationship between the price system and the industrial structure from the aspect of the flow of funds. Besides this, the influence

of the financial system on the industrial structure, as well as the influence of consumer demand on the industrial structure, are to a certain degree related to the price system. Many comrades have proposed that the revenue sharing system be changed to a divided tax system. However, under the conditions of the distortions of the price system, it will be very difficult to make this change. Because of the distortions of the price system, some places have moved out a large amount of low-priced resources so that the financial revenue of these places cannot maintain their own outlay and they need to be subsidized by central finances. If the divided tax system were put into effect, not only would the central finances not subsidize, but also not a single yuan would be taken from these places; this obviously could not be done. That is to say, under the conditions in which the price system is irrational, it is very difficult to truly abandon the revenue sharing system; but if the revenue sharing system is not abandoned it will be very difficult to readjust the industrial structure. The fourth part of this article asserts that the lopsided development of domestic electrical appliances is the result of the inflation of consumer demand. But, looking at another aspect, we see that it also has a certain relationship to the distribution of the price system. There is now a serious shortage of electric power in China. In many industries the cost of generating electricity by themselves is more than 5 jiao per kilowatt-hour, and it may be concluded that this is the marginal cost in China for every kilowatt-hour of electricity. In line with the principles of economics, China's price for electricity should be set at this level. At this price level for electricity, the development of China's domestic electrical appliances would certainly not be all that fast, and the development of electric power would certainly not be all that slow.

How can the phenomenon of serious distortions of the price system be permanently eliminated, so that it never again becomes a direct or indirect cause of distortions of the industrial structure? The key is to change the existing double-track price system to a price system in which free prices are made primary. Except for the prices of a tiny minority of departments, such as post and telecommunications, aviation, and railway, which are set by the state, the remaining prices should be completely free. Once prices are set free the price system will be automatically smoothed out, and the problem of the distribution of the price system causing distortions of the industrial structure will be readily solved.

### Banks' Investigation Report

40060632b Beijing JINRONG SHIBAO in Chinese  
23 May 89 p 3

[Article by Wan Jianhua 5502 1696 5478: "Initial Attempt To Readjust Industrial Structure"]

[Text] Editor's note: After 3 billion yuan in industrial startup funds were set in motion under the auspices of the

two general banks of China—the People's Bank and the Industrial and Commercial Bank—people of all circles held different views and could not agree on what was the right thing to do. Recently the relevant department of the People's Bank organized personnel to separately go to some large and medium-sized key enterprises to track and investigate the situation with regard to these funds. With regard to the reasons for the current tight supply of funds in large and medium-sized enterprises, they made an investigation and analysis of the situation in the use of the 3 billion yuan in industrial startup funds as well as the views on this sum of money by enterprises and banks at all levels. This was an initial attempt by the banks to take part in an investigation of the industrial structure, and we publish the results of their investigation and analysis for the reader's edification.

#### **I. Causes of the Current Tight Supply of Funds in Large and Medium-Sized Enterprises**

According to our understanding, funds are now in extremely tight supply in large and medium-sized enterprises, and many enterprises are already on the verge of stopping production. The main causes of the tight supply are:

A. Capital construction funds have not been put into motion, and the enterprises are behind in their payments for equipment, causing a tight supply of funds in industries that manufacture heavy equipment. Since the third quarter of last year, the state has strictly controlled the scale of investment in capital construction. In some key construction projects, although they are continuing to be built, funds have not been put into motion. As a result, in a number of capital construction projects for large enterprises that manufacture equipment, after the equipment is manufactured it cannot be paid for; the manufacturing funds are in tight supply, there is no money to buy raw materials, and it is difficult to continue production.

B. The prices of raw materials are rising, and the amount of funds needed is increasing. Since last year the prices of raw materials have risen rapidly. For example, in the first quarter of last year the selling price of pig iron was 446 yuan per ton, by the fourth quarter it had risen to 641 yuan per ton, and by the first quarter of this year it had risen to 725 yuan per ton, a rise of 62.6 percent. According to a report from the Shenyang Electric Wire and Cable Factory, the prices of copper, aluminum, and other raw materials have risen by 28 percent. Because of the rise in the prices of raw materials, this factory's share of funds has increased by 70 million yuan. On the one hand, the prices of raw materials are rising and the enterprises' need for working capital is increasing; on the other hand, because of the enhancement of macrocontrol, the control of the banks' extension of credit is tight and so the funds of enterprises are in extremely tight supply.

C. Large and medium-sized enterprises are now up against a situation in which their equipment is obsolete and it is difficult for them to sustain normal production

operations. The enterprises have to raise funds by themselves for technological transformation. A very large part of the funds raised by the enterprises themselves are their special-purpose funds, and the majority of these funds are turned into working capital for participation in production turnover. When an enterprise transfers this part of its funds for use in technological transformation, funds for production become extremely tight.

D. Over the past 2 years the excessive total demand of society has caused industrial production to grow at high speed. In the second half of last year, after credit was tightly controlled, a part of this demand was restrained. After order contracts for the products of many enterprises were fulfilled, because the purchasing units did not have the money to pay for the products, there was a large number of payments in arrears; consequently, there was a large increase in the amount of funds used by the enterprises. Some enterprises that did not receive payments for their products had no money to buy raw materials; thus starting a chain reaction making supply of all funds tight.

E. There are no sources to replenish the enterprises' working capital. For many years the working capital for the enterprises expanded reproduction and the construction of new enterprises or the expansion of existing enterprises was provided by the banks; consequently, the proportion of an enterprise's working capital within the quota set for working capital has lowered. This is an important reason for the tight supply in enterprise funds.

F. The practice of "suppressing one factory and maintaining one tract" has resulted in the state's large backbone enterprises having no sources of funds. After the policy of retrenchment was put into effect last year, there appeared in various localities a tight supply of funds. Because the amount of funds needed by large enterprises was great, some local governments and specialized banks adopted the practice of "suppressing one factory and maintaining one tract," leaving behind a big gap in the funds of large enterprises, which forced the large enterprises to turn to the central authorities for funds. This situation existed in the No 1 Motor Vehicle Plant, Anshan Iron and Steel Complex, Taiyuan Iron and Steel Complex, Taiyuan Heavy Machine Tools Plant, and other enterprises. Some enterprises have reported that, since the beginning of this year, not only has there been no increase in funds but on the contrary the local banks have recalled a large number of loans.

#### **II. The Role of Bank Head Offices in Extending Credit to Enterprises**

The enterprises that this time got industrial startup funds, all reported that the extension of credit by the head offices of banks embodied the state's industrial policy and insured the normal production of the state's backbone enterprises. In accordance with the regulations on the use of credit, some large enterprises use this credit to buy raw materials and start up production. Generally

speaking, the large and medium-sized backbone enterprises have a large number of factories and plants that provide raw materials, fuel, and replacements. The tight supply of funds in large and medium-sized enterprises puts a large number of coordinated factories and plants in a difficult predicament. After industrial startup funds are sent to the lower levels, by constantly paying for a series of urgently needed raw materials, not only was the production of enterprises that got loans started up, but also the production of a large number of coordinated factories and plants was given impetus.

### III. Views on the Direct Extension of Credit by Bank Head Offices

This year the head office of the People's Bank, together with the head offices of the relevant specialized banks, will, with regard to the large and medium-sized enterprises, adopt the method of extending credit in which there are fixed directions, fixed uses, fixed quotas, and fixed time limits. This will be the first new attempt, since the central banks were established, to participate on a large scale in the readjustment of the industrial structure, and the repercussions in various quarters differ. The relevant ministries and commissions endorse this practice by the head offices of the two banks. They think that direct loans to the state's key backbone enterprises insure the normal production of enterprises related to the national economy and people's livelihood, and stabilize the normal operation of the national economy. While enhancing control of the total amount of credit, from the macroeconomic view this is of major significance for grasping and interposing the readjustment of the economic structure.

—Filled with joy, the key enterprises that got loans clapped and cheered. Since the fourth quarter of last year, a large number of key backbone enterprises have been in a predicament with regard to their funds. The enterprises surveyed are putting the question of funds first in their operations research at their daily work. All the enterprises reported that this amount of funds was a "good rain after a long drought," which mitigated pressing needs and rescued the large and medium-sized enterprises in a time of peril.

—The reaction to this by the local banks differed. Comrades of some branch banks reported that the practice of head offices' extending credit was advantageous for readjusting the industrial structure and for insuring the normal production of key enterprises. However, the head offices' direct loans weaken the capacity of local banks for regulating funds, and there could appear a phenomenon in which the enterprises that should get the loans do not do so.

We think that if the method of "umbrella" loans is not adopted, there could appear in the 3 billion yuan of funds distributed to various branch banks a situation of "scattering pepper," and the localities will still adopt the practice of "suppressing one factory and maintaining

one tract," and the key enterprises will still be unable to get funds. This method of centralizing loans can truly play a role in controlling the use of funds, so that the structural policy of "protecting key enterprises and suppressing ordinary enterprises" is implemented.

In fact, "umbrella" loans do not negate the localities' right to regulate. Every local branch bank office controls the quotas of a fairly large amount of temporary loans, and at the same time a large amount of the deposits in the localities are also in the hand of the specialized banks there. The "umbrella" loans from bank head offices only account for part of the total amount of funds that the localities can use. It should be pointed out that this 3 billion yuan in funds, because the time period was tight and there was no experience to draw on, were put in places by the enterprises that were not completely appropriate. Some enterprises that should have gotten more funds did not receive them. From now on, we should pay attention to the localities where the funds distribution is more appropriate, and use the limited funds for the enterprises that urgently need them.

### IV. The Current Situation in Enterprise Funds

The great majority of large and medium-size enterprises reported that the 3 billion yuan of startup funds will maintain production for a period of time, but if the tight situation in the supply of funds continues, the enterprises will face a new difficult situation. The raw materials purchases of many enterprises are extremely passive. At any time it is possible that they will again be unable "to keep the pot boiling."

From a general view, if the problem of working capital to make payments is not solved, the large and medium-sized enterprises will very quickly land themselves in another predicament. However, based on the current financial situation, the deposits in various places are rising and funds have become more flexible. If the opportune moment is tightly grasped, it will help resolve the contradiction in the funds of key enterprises.

#### Footnote

1. See JINGJI RIBAO, 24 Mar 89 p 3.

### Strategy Propounded for Further Economic Reform

HK1307044989 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 3, 20 Mar 89 pp 28-35

[Article by Lin Yifu 2651 3015 1133 and Shen Minggao 3088 2494 7559, Development and Research Institute of the Rural Development and Research Center under the State Council, and Cai Fang 5591 2499, Rural Development and Research Institute of the Chinese Academy of Social Sciences: "Economic Reform and Choices of Development Strategy"]

[Text] China's economic reform has been implemented for 10 years. In these 10 years, rural reform has achieved

preliminary results, and implementation and improvement in the system of contracted responsibility on a household basis with remuneration linked to output has brought remarkable changes in rural areas. However, so far, urban reform is still constrained by the cycle of policy relaxation bringing vigor and vigor bringing disorder. Therefore, we should evaluate the results achieved and the mistakes made in the past 10 years with a sober mind, and should understand the fundamental reasons leading to the present difficult situation of reform. Only on this basis can effective measures and practical plans be put forward, the next step of reform be made stable, and the targets of reform be clearly stated.

### **I. Reform Is Being Constrained by the Policy Environment of Traditional Strategy**

In analyzing the difficult situation of China's urban economic reform, different people have different opinions and their views also vary. However, many opinions are still limited to the discussion of phenomena and superficial factors, and cannot reveal the fundamental reasons leading to the difficult situation of economic reform. In fact, the fundamental factor leading to the implementation of economic reform in China is the extreme lack of motive power and efficiency in the entire economic operation mechanism, and this lack of motive power and efficiency is formed by the policy environment that resulted from the traditional development strategy that gave priority to heavy industrial development. Moreover, the fundamental reason leading to the difficult situation of reform in the past 10 years is that the policy environment inherited from past development strategy has not been fundamentally changed. Due to these reasons, economic reform has been constrained in various aspects. Therefore, in searching for a way to get rid of the vicious cycle where policy relaxation brings vigor while vigor brings disorder, we should first analyze the relationship between the policy environment formed by the traditional economic development strategy and the traditional economic system.

The current macroeconomic policy environment in China was preliminarily formed in the First 5-Year Plan period, and was fundamentally fixed during the Second 5-Year Plan. The Chinese economic development strategy fixed in these two periods was a capital-intensive development strategy that gave development priority to heavy industry. At that time, when capital was extremely scarce, and in order to rapidly develop capital-intensive industries, policy measures had been formulated to match such a strategy and to ensure implementation of this policy. The fundamental theme of these policy measures is to artificially lower the interest rate, exchange rate, wage, and price of raw materials and agricultural products, and to distort the price of daily necessities and labor service. Over the past 30 years, although the target of the development strategy giving priority to heavy industrial development has been revised to a certain extent, the policy environment (that is, the environment where the interest rate, exchange

rate, wage, and price of raw materials and agricultural products were low) formed by the development strategy that gave priority to heavy industry has not been fundamentally changed. Under the constraints of such a policy environment, the increase in accumulation has still been allocated to heavy industry, although China has announced that it is going to adopt a policy focusing on coordinated development of agriculture, light industry, and heavy industry. Due to the distortion of the macroeconomic allocation of resources, the interference of rent-seeking behavior and the suppression of creative inertia, economic operation has been extremely inefficient. The economic reform, which has been implemented since 1979, was put forward under such background circumstances. However, this reform and the readjustments implemented in the past have focused only on the economic management system, and have not penetrated deeply into the policy environment. Since an economic management system is designed in accordance with its policy environment, if the original economic management system is reformed but policy environment is not, the direct result will be that the government will give up its control over the gap between demand and supply and over the flow of resources that result from the deviation in policy environment. When the original policy environment has not been changed and when distortion of the main market parameter remains unchanged, if the original management system is changed without careful consideration, it is inevitable that the result will be a situation where vigor will bring disorder. Over the past 10 years, in fact, the Chinese economic structural reform has been implemented under such a bleak situation.

1. Planning control on credit has been relaxed, but control of interest rates has not. The original credit management system was to ensure the supply of funds required by heavy industry under the low interest rate policy, and the allocation of these funds was carried out under the strict supervision of the state plan. Under such a system, banks were merely accounting units. Since the banking system had been implemented, a highly centralized planning management system, the gap between credit demand and supply had been artificially eliminated, and the scale of investment had been brought under control. Since 1984, the power for assessing and approving, and allocating credit has been handed down to lower levels, and various specialized banks have stopped "eating from the great communal pot" of unified control over revenues and expenditures. Moreover, these banks have adopted the method of issuing more loans in accordance with the increase in the amount of funds deposited so that they have maintained a balance of funds by themselves, have abolished an extremely large number of mandatory plans on individual projects, and have adopted a guidance plan on controlling the aggregate amount of funds. The intention of this reform is good. However, because the low interest rate policy was not correspondingly reformed at the same time, the interest rate still cannot reflect nor regulate the demand and supply of funds. Therefore, the gap between the

demand and supply of funds available for issuing loans and credit can be filled only by issuing more money. The inevitable result is a serious expansion of credit and investment.

2. The control on foreign exchange has been relaxed, local areas and enterprises are allowed to retain part of the foreign exchange they earn, and the low interest rate policy has not been changed. The combined reform of the industrial, agricultural, and technological trade systems, which has been implemented in China, has changed the situation where trade was only conducted by the foreign trade system, and has formed diversified levels in the foreign trade system. With the handing down of the right to conduct foreign trade to lower levels, a number of import and export companies and factories, which had combined industry with foreign trade, have been given the power to conduct import and export business. The low exchange rate policy, which has been implemented at the same time as the handing down of the power to conduct foreign trade, has made the price of foreign products lower than their actual value in the domestic market. Therefore, there has been a high demand for foreign products, and the import of foreign products has gotten out of control. Local areas and enterprises that have the right to retain and use the foreign exchange they earn have imported a lot of foreign products for their own interests, and have also imported duplicated things. These have thus interrupted the domestic economic order. On another hand, due to the abolition of the system of unified purchase and sales of export products, the price of these products in the domestic market has increased. Consequently, the cost of foreign trade enterprises for earning foreign exchange has increased, and production enterprises found it more advantageous to sell their products in the domestic market than to export them. Therefore, the desire of enterprises to export their products has decreased, and the contradiction between the demand and supply of foreign exchange has been intensified.

3. The control on the unified purchase of some agricultural and sideline products and daily necessities has been relaxed, while the control on the wage of urban inhabitants has not. Due to the fact that the competitive mechanism is not perfect, relaxation of the control on commodity price has led to commodity price increases. According to past experience, when the general price level is increased greatly, the magnitude of increase in the price of consumption goods is the largest. This is because the low wage policy has not been changed, and in order to prevent a decrease in the living standard of wage earners, the state has to spend a large amount of money on giving price subsidies. However, since the price subsidies given by the state cannot catch up with the increase in commodity prices, the real living standard of some people has decreased, and they have thus become unsatisfied with the reform. Perhaps, when the state can no longer give financial subsidies, we should slow the pace of reform or should readopt the unified purchase system. The deformation of the contract of grain purchase is a result of the interlocking of interests.

4. The microeconomic operative mechanism of enterprises has been reformed, but the policy environment of the traditional economic strategy has not been changed. Under the condition where there is a short supply of resources, the state ownership system and the corresponding system of state unified control on revenue and expenditure are originally the fundamental system guarantee for transforming, to a maximum extent, the profits achieved by enterprises into accumulation and investment. The state has relaxed its control on the microeconomic main body, has implemented the enterprise profit retention system, the system of paying taxes to the state by enterprises instead of turning their profit over to the state, and various forms of the contract system, and has also implemented the shareholding system on an experimental basis. These actions, of course, have strengthened the power of enterprises in making management decisions and have strengthened their operative vigor. However, since the control on the profits achieved by enterprises has been relaxed, a large portion of the profits achieved by enterprises has been distributed as wages and bonuses, and expansion of the consumption fund resulted. On the other hand, under the situation where the policy of maintaining lower interest rate, low exchange rate, and low price of raw materials, and other policies have not been changed, there still exists a gap between the production price and the management price of various means of production. Under the traditional system, the allocation of all materials and goods was strictly controlled by centralized plans, and since people had only a single source of income and consumption, the desire and enthusiasm of people in bribing others and in taking bribes from others, which are activities initiated by individuals' material benefits, are not strong. The rent-seeking behavior is thus shown in the way people will make use of friendship, departmental interests, the ranks of enterprises, and so on to get more resources for their enterprise and department. The practice of relaxing control of the economic management system without changing the policy environment has brought these results: Diversification of the sources of individual income, the emergence of the dual-track management system of goods and materials, and the strong desire of enterprises and individuals to obtain material benefits. The consequences are that the activities to obtain, by fair means or foul, goods and materials at a low price and quota for funds allocation have become "industries" that involve low risk but earn high income, and have also become the means for some individuals to become rich. Moreover, various types of reselling activities conducted by government officials and private individuals have emerged like bees rising in swarms, and rent-seeking behavior has changed from a potential and partial phenomenon into an obvious and common phenomenon. These have resulted in waste of funds in society, have corrupted social values, and have weakened the enthusiasm of the masses of people in supporting the reform. Under such a common rent-seeking situation, the dual-track system has only added fuel to the fire, while the contradiction between the policy environment, which has to maintain the traditional development strategy,

and the reform, under which power is to be decentralized and tax concessions are to be made, is the real factor leading to the phenomena mentioned above.

## **II. The Development Strategy Giving Priority to the Development of Heavy Industry Has Been Transformed Into a Strategy of Comparative Strong Points**

When the situation where the policy environment, under which the interest rate, the exchange rate, wage, the price of raw materials, the price of agricultural products, and so on are kept low, remains unchanged, in order to prevent the emergence of chaos in the operation of the national economy, the old planning management system, the state ownership system, and the system of unified purchase and supply should be tightly adhered to. The economic reform, which has been implemented since 1979, was first implemented under a situation where the defects of the old system had become very acute, and needed to be eliminated. Therefore, if we return to the original management system to seek a solution when unexpected disordered phenomena emerge in the course of reform, we obviously cannot find a method to improve the situation. At present, the difficult situation encountered by the reform is the natural reflection of the contradiction and clash between the policy environment formed by the traditional development strategy and the management system reform. As the original policy environment was designed for achieving the targets of the capital intensive development strategy which gave priority to heavy industrial development, the questions that we should raise at the moment when the reform is facing the present difficult situation are: Is there any strategy that can promote China's economic development in a way better than the development strategy of giving priority to heavy industrial development, and what policy environment can help achieve the development targets of such a strategy?

In comparing and in view of international development experience, for whatever social nature of any country, such as India and South American countries, which are capitalist, and East European countries, which are socialist, if a country has adopted a strategy that will give priority to development of heavy industry, its policy environment and its economic management system will be similar to that of China, and the problems they have to solve are astonishingly similar to those China has to solve. On the other hand, the economic development characteristics of countries and areas that have achieved significant economic results at an early stage, such as European and American countries, and Japan and the "four small Asian dragons" that have achieved significant economic results in recent years, are completely different from those of the countries which have adopted a development strategy giving development priority to heavy industry. At every economic development stage, these countries and areas have been able to fully use the comparative strong points of their resources. Therefore, the development strategy these countries and areas have adopted is a strategy of using the comparative advantage of resources.

Generally speaking, in the early development stage of any country and area, capital will always be the scarcest resource, and land (including other natural resources) and labor force will relatively be the means of production that are in the most abundant supply. According to the principle of comparative advantage, the economic development of these countries and areas at such a development stage will depend mainly on the development of resource-intensive and labor-intensive industries. Since these industries will comprehensively use the means of production that have a relatively cheaper price in their society, the cost of their products can be lowered. Therefore, their products can thus have substantial competitive power on the international market, they can gain more profit and foreign exchange, and their capital accumulation can also be achieved rapidly. With the growth of the economy, capital will gradually become a means of production, which has abundant supply, in these countries, and will also have comparative strong points. Up to this stage, the industrial structure of these countries will be gradually transformed into a capital-intensive one. When compared with the development strategy that gives priority to heavy industrial development, the development strategy of comprehensively using the comparative advantage of resources can bring a situation whereby industrial growth will slow down in a short period. However, in view of the long term, due to the fact that the entire economy of the countries that have adopted this type of development strategy will grow at a faster speed, the growth of their capital accumulation will also be faster, and the industrial development of these countries will be able to catch up with that of the countries that have adopted a development strategy giving priority to heavy industrial development. Take the comparison between India, which has adopted a strategy giving priority to the development of heavy industry, and South Korea, which has adopted a strategy focusing on developing labor-intensive industries, as an example: In 1965, the output value achieved by the manufacturing industry of India was \$6.9 billion, and that for South Korea was \$0.54 billion. In 1986, the output value achieved by the manufacturing industry in India increased to \$38 billion, and that achieved by South Korea was \$29.4 billion. The output of the manufacturing industry in India has increased by 4.5 times over these 21 years, while that of South Korea has increased by 53 times. In particular, the development strategy of using the comparative advantage of resources is advantageous to mobilizing agricultural labor power, and can coordinate aggregate economic growth and economic structural reform. With the development of the economy, traditional economic departments have been continuously reformed, the contrast of the dual economic structure has become small, and the whole national economy has rapidly entered the stage of modern economic growth.

The policy environment that has to be formed to cope with the implementation of the economic development strategy focusing on using the comparative advantage of resources is different from that formed by the development strategy giving priority to the development of heavy industry, and it requires that the price of various

means of production and products be freely determined by market demand and supply, so as to reflect the degree of scarcity of funds, foreign exchange, labor force, and various means of production and products, and to guide the flow of resources and the choice of technology. The results that will be brought by this type of policy environment will definitely contribute to the formation of the export-oriented and market-oriented economic operative mechanisms, and economic operation will thus become efficient and flexible.

1. Free floating of the exchange rate can reflect the relative scarce nature of funds, and can also automatically regulate the relationship between demand and supply in the funds market. When capital in a society has become a scarce means of production, the interest rate will stay at a high level. Under such a high interest rate, enterprises will tend to replace expensive capital-intensive machines with labor force that is relatively cheaper. When a higher level of funds has been accumulated, and when capital has become a means of production in relatively abundant supply, interest rate will fall, and enterprises will thus respond to this type of change and will be willing to use capital-intensive technology to replace labor. Since departments or enterprises that have achieved a high rate of efficiency can afford higher-priced capital, they will also be willing to obtain more capital to expand their production scale. Under the situation where there is a floating interest rate, funds will flow to departments or enterprises with higher marginal returns, and the returns from using resources in society will thus be increased. A floating interest rate can also induce the interest rate of saving deposits to be determined by the supply and demand of funds. Under the situation where there is insufficient supply of funds, the interest rate of saving deposits will increase. This is advantageous for mobilizing funds held by people in a wide scope, increasing the aggregate supply of funds in society, and alleviating the contradiction of insufficient funds.

2. When the exchange rate is not fixed and when it can float freely, it will be regulated by market supply and demand. Under the situation where there is serious a shortage of foreign exchange, a floating exchange rate system will allow the price of foreign exchange to increase. In this way, the cost of using foreign exchange will increase and the requirements on enterprises that must use foreign exchange will be raised. Therefore, the demand of enterprises for foreign exchange will decrease, the import of unnecessary materials and products will be suppressed, and foreign exchange can be used by effective enterprises and departments that have strong competitive power. Moreover, a high exchange rate determined by the market can lower the price of domestic products on the international market and can thus raise the competitive power of domestic products in foreign markets. In addition, the enthusiasm of enterprises to earn foreign exchange through export can be strengthened, and conditions can also be developed for development of an export-oriented economy, and for full use of dynamic comparative advantages.

3. The change in wage level is determined by the labor market. Under the resource structure where the supply of labor is relatively abundant, the wage level will be lower than the interest rate. This signal of the relative price of the means of production will guide enterprises to use labor-intensive technology, and to absorb labor that is in abundant supply. When the level of economic development has increased, the rate of capital accumulation will be faster than the growth rate of the labor force, the labor force will become a relatively scarce means of production, and the wage level will increase. When compared with the level of the interest rate, which is falling, the price of the labor force will become expensive. At this time, the signal of the relative price of the means of production will guide enterprises to use capital-intensive technology, and to replace labor with capital. The market will determine the growth of wages, provide an indicator for the flow of human capital, and will also be advantageous in eliminating various abnormal phenomena where income is inversely linked to mental capability. Apart from this, with the increase in the level of economic development, the wage level will also increase. This can enable labor to share the advantages of economic development, and can thus achieve the government's target of fairness.

4. The free determination of the price of energy, raw materials, agricultural and sideline products, and various types of products. The price of a product is the reflection of the supply and demand situation of this product. Under the system where the price of products is to be determined freely by the market, the price of the resources and products that are in short supply will increase. On the one hand, this will motivate society to increase investment in these products that are in short supply and to increase the supply of these products. On the other hand, the demand of society for these products should be suppressed to eliminate waste and to fill the gap between the supply and demand of resources and products. Another important function of the system where price is to be determined freely by the market is to induce the flow of resources toward industries and departments with the highest marginal rate of output and to make resource allocation efficient. Take grain as an example. With the development of the economy, land has gradually become a scarce resource, and the price (or the opportunity cost) of land will also increase. This will reduce the waste of land resources, and on the other hand, land will be replaced by other resources. Thus, the productivity of land will increase. Moreover, since the price of grain is determined by the market, the supply of grain will be induced to increase, the abnormal growth of the consumption of grain will be checked, and the contradiction between the demand and supply of grain will be alleviated.

Under such a policy environment, funds, foreign exchange, materials and goods, labor, and other resources will be completely allocated and regulated by the market, and it will be unnecessary to maintain the



planned management system, the state ownership system, and the system of unified supply and purchase. Under such an economic operative mechanism, the main functions of the government will be: (1) To establish market regulations, to use administrative and legal means to strictly implement antitrust measures, to ensure the free competitive market order and to enable market exchanges to be conducted in a stable way as expected. (2) To use independent monetary policy and financial policy to regulate the operation of the economy, and to check periodical fluctuations in the economy. (3) To invest directly in industries, such as education, transportation, energy, scientific research, and other industries that will require large-scale and long-term construction and will bring external effects, and to develop an environment and conditions for conducting the economic activities of enterprises and individuals.

The strategy of comparative advantage and its corresponding policy environment can eliminate three problems brought about by the development strategy that gave priority to the development of heavy industry—low efficiency in resource allocation, the emergence of rent-seeking behavior, and creative inertia. First, the policy environment formed by the strategy of comparative advantage can ensure a highest degree of efficiency in resource allocation. Viewed from the macroeconomic angle of resource allocation, the price of the means of production and products is determined by the market, and all industries and departments can freely enter and leave the market. The results are that management returns are very good and enterprises with competitive power can, under the guidance of the market, enter those industries and departments that really have to be developed. Moreover, this type of entry is a continuous one, and a bottleneck in economic growth will not emerge. Viewed from a microeconomic angle of resource allocation and under the situation where the price of the means of production and products is determined by the market, the one who can pay a higher price can get the resources, and enterprises that have obtained good returns can thus obtain a sufficient supply of resources. Moreover, the mobilization of the resources will also lead the resources to flow into departments that have the strongest development potential. Therefore, enterprises that have achieved good management results and have strong competitive power, and departments that have to be urgently developed (departments with the highest marginal rate of return of resources) will always be the enterprises and departments that can obtain the largest amount of scarce resources and the efficiency of resource allocation in the whole society can thus be increased. Second, the policy environment formed by the strategy of comparative advantage can eliminate rent-seeking behavior. When there is a gap between the equilibrium price of the means of production, which is determined by the market, and the distorted control price of the means of production, rent-seeking behavior will appear. Once when the price of all means of production and products is no longer artificially distorted, and when there exists only a unified market price, rent-seeking behavior will be

eliminated, and no enterprise can obtain benefits through rent-seeking activities. Finally, the policy environment formed by the strategy of comparative advantage will motivate the creative enthusiasm of enterprises. Since enterprises can freely enter and leave the market, a competitive mechanism whereby capable ones will survive will be formed. Moreover, no enterprise will be protected by policy. If an enterprise does not carry out creative activities to strengthen its competitive power, it will be eliminated by other enterprises that have obtained better returns. Moreover, since there will be no rent-seeking opportunity, in addition to the method of undertaking creative activities, enterprises cannot survive in competition with other methods.

### III. Partial Reform That Has a Clear and Definite Overall Target

The fundamental target of the Chinese reform is to transform the economic development strategy from one that gives priority to development of heavy industry to one that focuses on comprehensive use of the comparative advantage of resources; and the main content of the reform is to reform the macroeconomic policy environment and the economic management system. The reform should be implemented in a coordinated manner. However, we do not think there is a general reform plan that will bring immediate results. The reform of the original Chinese economic system itself has clearly illustrated that there is serious insufficient information for making decisions, and it is very difficult to obtain effective parameters from the existing economic operative mechanism. Similarly, economic reform is to be implemented in the course of economic operation. However, even though the target of reform is clearly defined, due to the fact that we cannot grasp the whole process of economic operation and its relationship to reform, the so-called coordinated reform plan, which has been formulated, is naturally not a mature one, and will involve a great degree of blindness and great risk. Under such a reform plan, which involves a joint motive nature, it is clear that people who have already obtained benefits will lose benefits, while most people will not be clear about the benefits they will obtain. Therefore, people will have a feeling of being exploited, and the reform thus cannot gain wide support from the masses. Moreover, what the decisionmakers are concerned about are usually the most urgent economic problems and contradictions. When the realities have not given decisionmakers a sense of necessity and urgency, they will not be enthusiastic and will not put all their efforts in implementing an immature reform plan, will continuously make mistakes and will amend the plan. Therefore, theoretically speaking, the best reform plan will be on where the overall reform target can be divided into several stage targets, can achieve the stage targets, and can combine this with solving urgent practical problems. In view of the present situation, the only practical reform plan is a partial plan proceeding from solving the present problems and contradictions. We object to the partial plan that has no clear target and that emphasizes too much principles and



concepts. The results of this type of plan cannot be predicted and this type of plan will be able to find no way out. The more important point is that this type of reform can never grasp the nature and core of a problem and will bring contradiction between the previous plan and the present plan. This type of reform strategy will exhaust the reform, and will even affect people's confidence in achieving the targets of reform. It is very important to have clear targets of reform. When the final targets of reform are clearly defined, we can then adopt reform measures that can help achieve as much as the final targets.

At present, we have to solve a series of economic problems and contradictions, among which the most acute problem is inflation, which has become more serious day by day. The great increase in commodity price has interfered with enterprise production and the lives of inhabitants, has made all economic forecasting unstable and abnormal, and has damaged the macroeconomic environment of economic reform. Under such a situation, the economy must be adjusted. The practical method of combining economic readjustment with deepening reform is to implement a partial reform with clear overall targets. However, partial reform should never be one that will be implemented in accordance with the reflections brought about by the reform, and it should be implemented in accordance with the overall principle. This principle involves two basic points: First, every partial reform should be implemented toward the overall targets that have already been fixed. Since partial reform will usually focus on solving urgent practical problems, if this principle is not grasped, partial reform will lose its direction, and will become some sort of short-term readjustment program. Second, every partial reform measure should create conditions for the reform to be implemented in the next stage, and should not, due to the solving of urgent questions, create obstacles to the reform to be implemented in the next stage. The success of reform in general is determined by the aggregate results achieved by all partial reforms. Therefore, every part and step of the reform is closely linked to each other. If the reform implemented in the previous step has obstructed the implementation of the reform in the next step, a series of interruptions will be brought about through this type of linkage, and the results achieved by the reform implemented in the previous stage will be canceled out. When this type of linkage is grasped, even if only insignificant results have been achieved in the previous stage, they can still promote the reform in the next stage through the inherent logical relationship and will enable the overall reform to achieve significant results. According to this principle, partial reform should be positive progress and not a passive readjustment.

#### **IV. Coordinated Reform of the Management System and Policy Environment**

In order to enable the Chinese economy to get rid of the cycle where relaxation will bring vigor while vigor will bring disorder, and to make every reform measure

advantageous to the formation of the strategy of comparative advantage and corresponding policy environment, the past practice whereby only the management system will be reformed and the policy environment will not be reformed should be dropped, and a new strategy combining the reform of both aspects in a coordinated manner should be adopted. The core of this strategy is to reform the policy environment formed by the traditional development strategy. That is to implement reform in the aspects of interest rate, exchange rate, wage, and price. At the same time this reform is being implemented, the financial, foreign trade, labor and wage, and the price management systems, which are closely linked to the reform, should also be correspondingly reformed. We do not agree to give the reform of the ownership system a key position, and hold the view that the reform of the ownership system should be implemented in a way corresponding to the reform of the policy environment. This is because, if the policy environment is not reformed, two phenomena will inevitably emerge in the course of the ownership system reform: First, when the reform of the ownership system has not been implemented in a thorough way, the various types of contract system, which are currently being implemented, have only defined the responsibility of a contractor and have set the target of management results, but have not solved the problem of short-term behavior of enterprises. The results of handing power down to lower levels are that contractors will transform more of the profit achieved by their enterprises into wages, the consumption fund will expand, and the capability of enterprises in accumulating internal resources will decline. Second, under the situation where the ownership system has been reformed in a thorough manner, because the policy environment has not been transformed most enterprises will still be protected by the state. Moreover, state monopoly will be transformed into private monopoly, and the principle that enterprises can enter and leave various industries and the principle that only good products can survive in the market cannot be able to play a significant role. The more serious point is that if the policy environment remains unchanged, the opportunity of rent-seeking will still exist. Therefore, the reform of the ownership system will only strengthen the rent-seeking motive, bribery and corrupt activities, and activities trying to rope in people will become common, the creative enthusiasm of enterprises or individuals cannot be mobilized, and the efficiency of resource allocation cannot be increased. Of course, the role played by a new policy environment will depend on the vigor of enterprises and their management main body. However, the course of ownership system reform should coordinate with the policy environment reform.

Several ideas (main points) concerning partial reform are illustrated in the following lines.

1. On the reform of the interest rate system. All controls on the interest rate should be relaxed, interest rates should be determined by the demand and supply of funds in the market, and the funds market is to give play

to its function of regulating the demand and supply of funds. It is normal that some basic industries, such as energy and transportation industries and public facilities will not be able to afford high interest rates when control on interest rates has been relaxed. It is because these industries have the characteristic of having great external economic effects, and the method of inputting direct state investment or giving financial subsidies can be adopted to help these industries. For enterprises in general industry, since their current net expenditure on paying bank interest amounts to about 2-3 percent of their cost, relaxing control on interest rates will not affect them much. The direct effects of relaxing control on interest rates are that the effective supply of funds will increase, excessive demand for funds will be checked, and the current inflation problem can thus be solved. With the development and perfection of the funds market, the interest rate, which is determined by the market, will guide the economic development strategy to transform itself into a strategy focusing on comparative advantage. Under the present situation, where the supply of funds is extremely scarce while the supply of labor is relatively abundant, enterprises will economize on their use of capital, and labor-intensive industries will thus achieve better development. In this way, resource allocation will become more efficient in the microeconomic and macroeconomic aspects. Among the conditions for reform of the interest rate system, the exchange rate system, the wage system, and price reform, the conditions for relaxing controls on interest rates are the most mature, and interest rate policy will be the core of all development strategy. Therefore, in order to transform the traditional development strategy from one giving priority to the development of heavy industry into one focusing on comparative advantage, to restore the government's power to control the aggregate amount of money to be issued, and to prevent inflation, the policy of relaxing control on the interest rate should be upheld, and the interest rate on saving deposits and loans should be determined by the demand and supply of funds.

2. On the exchange rate policy. The direction of the reform of the exchange rate system should be that the exchange rate should be determined freely by the demand and supply of foreign exchange in the foreign exchange market. However, unlike reform of the interest rate system, relaxing control on the exchange rate cannot result in the whole society benefiting at the same time by the reform, and it cannot eliminate resistance from the people who have already obtained benefits. Therefore, a flexible policy should be adopted to reform the exchange rate system, and this policy should recognize the existing pattern where some people have already obtained some benefits. The specific thinking is: Separate quota and contracting systems should be adopted to handle enterprises that are earning foreign exchange and that are consuming foreign exchange, and the foreign exchange regulatory market should be opened at the same time. For enterprises that have to consume foreign exchange, a quota amount of foreign exchange will be assigned to them and the amount will be fixed in accordance with

the basic figure of the amount of foreign exchange they are currently consuming. An enterprise can retain or sell the balance of its quota in the foreign exchange market. For enterprises that are earning foreign exchange a quota of foreign exchange will be contracted with them by the state, and the quota will be fixed in accordance with the current basic figure of the foreign exchange they will earn. If an enterprise has earned more than the quota amount of foreign exchange, certificates of foreign exchange conversion, on which the surplus amount of foreign exchange it has earned is stated, will be issued to it, and these certificates can be exchanged freely in the foreign exchange market. The quota of the amount of foreign exchange an enterprise can use and the certificates of foreign exchange conversion will form a price in the market. In this way, the marginal price of the foreign exchange involved in foreign economic activities will be equal to the equilibrium price determined completely, and the degree of scarcity of foreign exchange can be reflected. These arrangements are very close to that of a floating exchange rate system. This type of reform matches the overall target of relaxing controls on the foreign exchange rate system. The direct results this reform will bring are: Government subsidies on foreign exchange earnings will be stabilized and reduced, the idea that selling goods in the domestic market is more beneficial than exporting them will be changed, the foreign trade environment will be improved, the development of an export-oriented economy will be promoted, and the development of the domestic economy will also become vigorous.

3. On wage reform. Wage reform is related to the price reform bearing capacity of the masses and is also related to the key question whether the reform can win support from the masses. In order to prevent consumers from suffering losses caused by price increases in the course of price reform, at present, the common practice we have adopted is to give subsidies to consumers. However, in the long term, the practice of giving subsidies is still an administrative means, and it can only temporarily alleviate the conflicts of interests. Moreover, if subsidies are given at a rate slower than the increase in commodity price, consumers still will have to face the problem of a decrease in their living standard. Apart from these, world experience told us that subsidies have an extremely high degree of rigidity of interests. If a government has to give subsidies in a long period, it will have no way back, and the huge amount of subsidies will bring chronic economic problems to the economy. The ultimate target of wage reform is to relax the control on wage rates, and to allow wages to be determined by the labor market. However, before the short-term behavior of enterprises is stopped, the relaxation of control on wages will lead to expansion of the consumption fund; and the increase in commodity price, which is a result of the expansion of consumption funds, will damage the interests of most people. Therefore, in the near future, a transitional reform measure advantageous to achieving the ultimate target should be adopted, and a reasonable

relationship between the increase in wage and production development should also be established. A reasonable wage system should meet the following criteria: It should be able to arouse the enthusiasm of labors; it should not be a main factor leading to a price increase; and it can be able to give compensation to labors under the situation of inflation. The practice of linking wages to the price index can meet only the last criterion stated above, and cannot arouse the enthusiasm of labor. Moreover, according to the experience of some countries that had once adopted this type of practice, this practice will often lead to spiral wage and price increases. A reasonable wage system should adopt a practice of dual linkage. That means the rate of increase in the wages of the staff and workers of productive units should be linked to the rate of increase in the net output value achieved by their enterprise; and the rate of increase of the wage fund of the staff and workers of nonproductive units such as government administrative units, the army, hospitals, schools, and so on, should be linked to the rate of increase of the financial and tax income received by the state. Under the conditions of this dual linkage, if productive units can achieve rapid increases in productivity, the increase in their net output value will be at the same rate as the increase in the wages of their staff and workers, and this will be advantageous to strengthening the enthusiasm of the enterprises for improving management and for increasing productivity. The precondition for this type of wage increase is the increase in productivity, and such a wage increase will not lead to price increases. Since the increase in the financial and tax income of the state will be in proportion to the growth of the national economy, the practice of linking the wage of the staff and workers of nonproductive units to the financial and tax income of the state can enable staff and workers to share the results of economic growth of the state, and this practice also will not lead to inflation. However, under the situation of inflation, the nominal net output value achieved by enterprises and the nominal financial and tax income obtained by the state will increase, the wage income of staff and workers will also increase and their living standard will not be affected by price increase and will not fall.

4. On price reform. The ultimate aim of price reform is to achieve a market price determined by demand and supply. Price reform will involve the interests of many parties, and it is certain that price reform will involve risk. It is because of price increase, which cannot be avoided in the course of reform and will give the masses a resistant feeling toward reform, that galloping inflation, which will lead to economic chaos, may emerge. Therefore, implementation of price reform requires comprehensive policy preparation and a good reform concept. At present, price reform in China is facing three problems. First, the regulatory comparative price subsidies given to staff and workers before control on price is relaxed can only be increased and cannot be reduced, and the results are that there is high expectation of a price increase, and the masses thus have a strongly resistant feeling toward price reform. Second, too much

cash is in the hands of consumers, and in response to the expectation of price increase caused by giving price subsidies, panic buying results. Since people have used their cash to buy goods, individuals' savings decreases, a credit crisis thus results, and inflation is further induced. Third, the existence of various types of monopoly: 1) Regional monopoly. That means due to natural or artificial reasons, the price of some products is very high and has become monopoly price in some areas. 2) Monopoly in the period when industries are being transformed. That means when the control on price is relaxed and before other competitive enterprises can enter the industry producing the monopolistic products that were originally in the hands of a small number of enterprises, the monopoly situation will still exist. Before the initial stage of price reform is launched, there must be conditions that can solve the three main problems mentioned above. When the conditions are ready, the reform should be implemented in time, price should first be regulated, and then the control on price should be relaxed. In this way the price reform can rapidly achieve its targets.

In the period from the time when price is totally controlled by the state and comparative price is totally distorted to the time when the control on all prices is relaxed and reasonable comparative price is formed, there will be an excessively large price drop. When control on all prices is relaxed, before the comparative price is adjusted to a reasonable level, and before the entire society can obtain the benefits that will be brought by price reform, the resistance of the people who have already obtained benefits and the incapacity of the masses to bear the price reform may lead to a miscarriage of the price reform. Therefore, before the control of price is relaxed, a series of coordinated measures should be formulated. First, regulatory price subsidies should be given to enable comparative price to reach a reasonable level. This is the first step to reduce the risk of relaxing the control on price. In the course where price is being regulated, the reasons leading to withdrawal of money for panic purchase are the low interest rate, and that inhabitants cannot preserve the value of their money. Therefore, the aim of price regulation is to maintain the masses' confidence in the value of their money. The principle should be upheld whereby the value of the money that has been deposited in banks for more than a year should be preserved, and the control on interest rates should be relaxed at an appropriate time. This is to transform the cash held by inhabitants, which can be used to buy commodities to meet their demand for commodities, into the supply of funds. Second, the preconditions for implementing price reform are the breaking up of monopoly markets and the protection of free competition. Monopoly can be divided into two types—natural and artificial (administrative). The returns to scale of some industries, such as the railway industry, the postage and telecommunications industry, and so on, are very large. The cost of supervision of these large-scale enterprises is comparatively small, the government can control the price of their products and the service provided by them, can preserve its power to

control and fix the price of their products, and can ensure a reasonable profit margin of the enterprises. The breaking up of artificial monopoly, regional administrative monopoly in particular, requires policy and legal guarantees. On one hand, enterprises have to become the real economic main body, and their fundamental power is to achieve profit maximization. On the other hand, administrative (mainly local) control on the circulation of commodities should be banned, and regional monopoly, which is formed by such administrative control, will no longer exist. Finally, a substantial amount of foreign exchange reserves should be kept to balance the risk of price reform. There is a time lag in the period from when the control on price is relaxed and the flow of resources is readjusted to the time when effective supply in society is increased. In order to fill such a gap, the foreign exchange reserve can be used to import some commodities to supplement the market supply. This is advantageous to arouse the competitive consciousness of domestic enterprises, and to guide the development of the export-oriented economy.

**Socialist, Capitalist Market Systems 'Blending'**  
*HK0307144389 Beijing JINGJIXUE ZHOUBAO in Chinese 18 Jun 89 p 4*

[Article by Liu Lizhen 0491 0500 5271: "Freeing Ourselves From Traditional Ways of Thinking"]

[Text] In the one and half centuries since the birth of Marxism, there has very often been a historical phenomenon that calls for deep thought. Whenever a capitalist economy grows rapidly and prosperity occurs, bourgeois scholars step forward and announce that Marxism has been outmoded, or has gone bankrupt. Whenever war breaks out and economic recession occurs in capitalist countries, Marxists announce that the days of the collapse of capitalism will come soon. In a period of more than 100 years of mutual conflict and struggle, the progress of human society has never stopped. Capitalism and socialism have developed sufficiently. Old-style capitalism no longer exists, whereas many socialist factors have been infused into the existing capitalist political and economic system. The existing capitalism has been more advanced in science, democracy, civilization, social security, and so on. Pure socialism without capitalist factors has never succeeded. The existing socialist economy is blended with many capitalist economic factors. In this world, there is neither pure socialist society nor pure capitalist society. Socialism and capitalism are relative. It is precisely the mixture of these two systems that has enabled both socialism and capitalism to achieve development.

However, for a period of time in the past, people usually followed the mindset of conflict, hostility, and struggle to treat socialism and capitalism. A distinction between capitalism and socialism is artificially made even with regard to matters or concepts of the same nature. This kind of method for making rigid distinction has distorted operation of the modern commodity economy

under the restrictions of some socialist principles. This situation is particularly obvious with regard to the choice of the system governing property rights.

Due to the trammels of the ways of thinking of conflict, hostility, and struggle, when some people choose a system governing property rights, they fail to proceed from objective facts. On the contrary, they persist in the public ownership system merely to make a distinction between socialism and capitalism. They believe that since capitalism pursues a private ownership system, socialism must persist in public ownership system. It is sad that when they make such a choice, they are not clear about the private ownership system pursued by capitalism, and the public ownership system that we should uphold. Actually, the capitalist mode of production is not fixed and unchangeable. The capitalist property right in reality is not a private ownership system based on traditional concepts. It is a private ownership system that has evolved and has been blended with the factors of a public ownership system, or socialist factors. In our practical economic life, the public ownership system we persist in is not a genuine public ownership system on social scale. Actually, we use a state ownership system to replace Marx's social public ownership system. According to Marx's system, in the community of free individuals, each and every laborer has an opportunity to give full and all-round play to their capability. Economically and politically, all people can directly participate in the use, management, and policy decisions of property. Actually, a state ownership system is not equal to a social public ownership system. At the beginning, people naively thought that all evils of capitalism originated in the private ownership system. Under conditions when it was difficult to implement the social public ownership system envisaged by Marx, people flaunted the banner of the state ownership system as that of the socialist public ownership system. It has been found that, in practice, the state ownership system, which has been regarded as an orthodox socialist property right system, is not so ideal and perfect, and that there are fairly serious defects in it.

First, due to implementation of the state ownership system, economic development lacks motive force. Nobody shows concern for, supervises, or assumes any responsibility for the social wealth. The state ownership system has provided the bureaucratic class, which consists of a small number of persons, with the opportunity to use their power to govern or control the state-owned property, so that they can rely on their power to exploit others or carry out exchanges of unequal value. In the meantime, due to the fact that the inviolability of the state ownership system is not strictly stipulated, under the pretext of state ownership, public ownership, or ownership by the whole people, some people try to nibble, steal, or illegally occupy social wealth. Second, if we consider the matter deeply, we will find that the state ownership system is imbued with a certain feudal coloring. Social wealth in modern times exists mainly in two forms: commodity and currency. Under the state ownership system, all social wealth is concentrated in the

hands of the state and government. On such a basis, the government provides enterprises and institutes at all levels with funds, raw materials, energy, and a labor force. Therefore, enterprises are always the babies of the government. It is difficult for laborers to possess the power to govern their own labor capability. Third, such a situation precisely runs counter to the commodity economy that we have advocated, because the basic meaning of a commodity economy is the mutual exchange of various independent property rights. It is only under the prerequisite of different ownership powers that the exchange of commodities, property, and currency will be necessary and possible. Only thus will true market prices be set. The situation mentioned above also runs counter to reform and opening up. Since the state ownership system concentrates the power to govern production in the hands of the government, state-owned enterprises want many things from the government, but they lack the initiative to provide wealth for the government. As government administration mingles with enterprises, terrifying waste, indolence, and low efficiency have become the common failing of the state ownership system. This means our enterprises themselves are in a closed status. It is difficult for them to enter the international market. Fourth, under the guidance of the reform ideas of yielding profits and delegating power, such a microscopic foundation based mainly on the state ownership system can only strengthen consumption interests, induce the inflation of consumption funds, and produce influence over inflation, because there are no mechanisms within enterprises that can control the excessive issuance of consumption funds, and control can only be exercised from outside through the state. This can only lead to inflation due to the expansion of consumption funds. The situation mentioned above has shown that reform in the system governing property rights cannot be evaded. Today, we are in a critical moment of further promoting and deepening the reform. If we are unable to free ourselves from the trammels of the way thinking of setting ourselves against, being hostile to, and struggling against capitalism, we will persist in the state ownership system with the aim of preventing capitalism. Thus, it will be difficult for us to deepen the reform. Of course, reforming the system governing property rights does not mean that we must retreat to the private ownership system. On the contrary, we must establish a system of dual properties governing modern property right characterized by both private and social ownership.

Judging from the development trends of human society, we know that mankind shares a common progress and that mankind also strives for a common goal. If we say that the communist society envisaged by Marx is a common development trend of mankind, in the long historical development process of changing private ownership into public ownership, there will be a period of common development of social capitalism and capitalist socialism in which capitalism and socialism coexist. In contemporary human society, the modern economy has been increasingly open and blended, and distinctions

between states in developing a modern economy have become blurred. Capital, means of production, labor, science, technology, and all essential factors of production have exceeded national boundary, and have been flowing on a global scale. This is the characteristic of the modern economy. The contemporary commodity economy has demanded that people free their minds of regional bounds, bounds of principles, and political bounds. If we are always hampered by these bounds, and if we persist in separating ourselves from the rest of the world, we will fall into a dilemma and a contradictory situation of intending to face the world, and imposing restrictions on ourselves.

The conclusion remains: Let ideas break through the jail!

### **'Government Should Withdraw' From Market Competition**

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[Article by Liu Jiankang 0491 7003 1660 and edited by Shen Zhiyu 3088 1807 3342: "Thoughts on the Government's Withdrawal From Market Competition"]

[Text] In our country's economic life at present, among the state-owned industrial enterprises a psychology of dependence universally exists. When running a project, one does not go to the market but looks for the county chief or the mayor; if a shortage of funds occurs, it does not call for approaching the market but for going after the government for money. Today, in the invigoration of the operation and management mechanism and establishment of a healthy and sound new order of the commodity economy, such a state of affairs is obviously irrational. For the sake of treating and improving the economic environment, consolidating the economic order, and all-round deepening the reform, I believe that the government should, of its own initiative, withdraw from market competition and freely allow the enterprises to go through the tests of successes and failures in the market.

### **I. The State of the Government Directly Participating in Market Competition Must Be Altered**

Following the line of thought of the "state regulating the market, and the market guiding the enterprises," the government's principal functions are to employ economic, administrative, and legal means to strengthen macroeconomic control, regulate market supply and demand relations, and create a favorable economic and social environment. The enterprises should shake off their dependence on the government and, based on market demand, forecast the consumption trend, continuously develop new products, and open up new markets. Unfortunately, for a rather long period in the past, we have violated this law, the government has frequently "gone out of position" to "catch the ball," and directly engaged in various kinds of management activities. In investment, the government resorts to thousands of ways and means to lend funds and merge finance. Moreover,

with the existing practice of the system of repayment of loans prior to delivery of taxes, which in reality is like government finance repaying the principal and paying the interest on loans contracted by the enterprises, and the "unified control" of circulating funds by the banks being converted into the banks' "unified provision" of the funds, the ideology of depending on government's investment on the part of the enterprises is growing stronger and stronger. In the distribution sector, the government takes full charge, from planning the distribution of the material resources to the organized supply of raw materials, up to the internal distribution programs of the enterprises and the grading of their pay schedule. In the fixing of prices, regardless of whether the products enjoy brisk sales or not and also regardless of whether the purchase prices of the raw materials are high or low, the government does the price-fixing just the same and at times even does the price fixing in a way that is similar to "caring for the relationships." The result is violation of the market conditions and twisting of the prices. This makes it impossible for the enterprises to compete in terms of equality. Because of the shortage of raw materials and the state of stringency in energy supply, the government is sometimes forced to consider using grain as exchange for steel materials, and agricultural sideline products as exchange for coal, and does not mind doing so whether or not the change is strictly permitted by the state policy. Government being itself the executor of law, yet it is still involved in barter exchange. This thus leads to injustice and judgment and arbitration, and to the difficulties in maintaining law and order.

The government's direct participation in market operation activities has brought many defects to economic life.

The first is the growth of the practice of "officials buying at low listed prices and reselling at high market prices." The government's direct participation in market activities enables certain cadres to take advantage of the loopholes in the price "double-track" system and engage in the ill practice of "illicitly changing one pole for another," thus encouraging the growth of such phenomena as official profiteering and licensing.

The second is using power to seek private gains and the atmosphere getting more corrupt by the day. Certain government cadres can make use of the power in their hands or the planned material resources or scarce commodities which they hold to make grants, earn banknotes, and engage in exchange power for commodities, money for goods and goods for goods, thus seeking private gains. In some cases, they even openly accept bribes.

The third is tax evasion and the continuous appearance of false and substandard commodities. Due to the government itself engaging in operation activities, the market's restraining and restrictive power is weakened, and this provides opportunities for the merchants to evade taxes and to produce and sell false-brand and low-quality commodities. In the circulation sector, the phenomena of illicit hoarding, speculation, reselling of goods, and exploiting by

middlemen are especially rampant. It is reported that among the individual and commercial individual bodies in Jianhu county of Jiangsu Province, 95 percent evaded tax payment and cases of poor-quality cigarettes and bogus wine frequently occurred. Certain individuals went so far as mixing soya sauce in farm medicine, causing damages to the peasants. Simultaneously with the government taking direct part in business operations, enterprises are also engaged in certain business activities, but because their dependent relationship on the government has not really been severed, they follow the government's directions in their market activities, and so all along have not been able to be the principal players in the market. So long as this relationship stays, the above-mentioned phenomena cannot be removed.

In short, government must speedily change the current situation of directly taking part in market competition, initiatively withdraw from market competition, and force the enterprises to go into the market. Doing so has at least three advantages: First, government can be a little detached and be free in grasping improving and consolidating work, strengthening the regulatory functions, and creating conditions for setting up a new order for the market. Second, once the government places itself outside the market, and is no longer the competitor of the enterprises and no longer the boss of the enterprises, it can then, with the eyesight of the "onlooker," clearly discern the problems and contradictions of market activities and thus effect the needed regulation and arbitration. At the same time, since the government is not aloof from the market, its arbitration is just and prestigious. Third, we can thus remove the ground for breeding such phenomena as monopoly by merchant-officials, rebuying or reselling for profit, giving bribes and receiving bribes, unfair distribution, tax evasion, and so forth. This will help to form the atmosphere of being clean, honest, and frugal in official duties, and improve the government's image before the people.

## **II. Government Must Positively Create the Conditions for Withdrawing From Market Competition**

Although the government wishes to withdraw from the market, it is unable to do so thus far. One of the principal reasons for this is that so far a complete and perfect market system has not yet been built, and for the time being the enterprises still cannot operate freely in the market. Obviously, if the government wishes to withdraw from market competition, it must first create conditions for the withdrawal. At present, at least the following conditions must be created:

1. It is necessary to establish a specialized organization to manage the state-owned enterprises. If the government wishes to withdraw from market competition and give back the operation and management right to the enterprises, first of all it will meet with the problem of how to handle the state-owned enterprises. If a total hands-off policy is adopted, how will the state's ownership right over the enterprises be manifested? If only a portion of the



operation and management right is given up, then the situation will be one of "half yielding and half retaining." In such a case, not only will the enterprise's life power and vitality be stalled, but also the government's withdrawal from market competition will be an empty word. Therefore, the establishment of a specialized organization in the nature of an enterprise for the purpose of running the state-owned enterprises will become a condition of first importance. Between this organization and the enterprises, there does not exist any upper- or lower-level subordinate relationship, and the organization does not resort to administrative measures to intervene in the enterprises; it does not bear any responsibility regarding the enterprise's losses or bankruptcy and the enterprises will be solely responsible. By so doing, all the relations between the enterprises and the government will be relations of agreements and contracts, and the state-owned enterprises can fully utilize the properties accorded by the government for their operation and management. Based on the law and agreements, they deliver taxes and profits, realize the renovation and value-increment of the state-owned assets, and ensure the realization of the state's ownership right. At the same time, in the management and control of the state-owned enterprises, this specialized organization not only bears the task of increasing the value of the assets, but also is entrusted with the mission of stabilizing commodity prices and regulating the market. It must follow the rules and regulations of the market to guide the state-owned enterprises to operate autonomously and according to law.

2. It is necessary to speed up the building of a market for the essential factors of production. This is an important task imposed by the government on the enterprises after "ceasing to give them milk." After the enterprises have cut off their subordinate relationship to the government, if a well-developed market for essential factors of production to exercise effective restrictions over them does not exist, the enterprises will become boats without sails and may revert to the old road of confusion following decontrolling, controlling following confusion, and strangling and death following controlling. This will cause reform to regress. Market law has told us that the existence of a unitary commodity market cannot fully display the role of market mechanism. This is because when a certain kind of commodity rises in price because of short supply, if no essential factors of production such as funds and labor force flow into the department producing this kind of commodity, then there can be no improvement in the condition of the short supply commodity, its price cannot fall, and there is no way to realize balance in supply and demand. Hence, it is extremely important and necessary that the building up of a market for essential factors of production be accelerated and an integrated and complete market system be installed.

3. It is necessary to guide the enterprises to consciously carry out market orienting. At the time of the government's withdrawal from market competition, first we must train up the enterprise's "understanding of the cessation of milking," and guide the enterprise into the market. This is to say, after the enterprise departs from dependence on the government, it must be helped to

consciously and acutely react to market signals and become adept in standing by itself in competition. Second, the enterprise must be helped to strengthen its "crisis understanding," forsake the concept of leaving its own destiny to the government, but establish the concept of depending on quality and effects to seek survival in the market and to seek development. Third, the enterprise must be helped to strengthen the "risk concept," learn how to assess price fluctuations of the market, correctly analyze actual demand after the rise or fall of prices, and know how to avoid the risks when the fluctuations reach the peak or trough. Fourth, the enterprise must be helped to strengthen its "management ideology," to accomplish the feats of adroitly organizing production based on market changes, adjusting supply of material resources based on production needs, pricing the products based on market conditions, and well arranging funds in accordance with operation needs, truly realize autonomous management and operation, and be responsible for its own profits and losses.

4. It is necessary to attach great importance to the building up of market regulations and a market system. The problems of economic environment and economic order are principally manifested by the problems of market environment and market order. At the moment, the market condition is an extremely serious one with hidden, vast, potential dangers. One of the important causes for this is the lack of market regulations and system. Hence, in the current treatment of the environment and improvement of the order, it is first necessary to strengthen the building of market regulations and system and to inject into the regulations and system concrete adjustment control demands based on the features of the market. For example, the demands should embrace those governing the enterprise's entry into the market including examination and approval of newly built enterprises, selection of products, utilization of resources, environmental potential, raising and merging of funds, technical quality of products, and so forth; the regulations should also embrace such eventualities as the enterprise's withdrawal from the market, including the enterprise reaching the bankruptcy critical point, handling of a bankrupt enterprise's debt relations, and placement of and social aid for the staff of a bankrupt enterprise. In addition, the regulations must cover measures on how to legally protect competition, eliminate monopoly, create an environment for the enterprises to compete on terms of equality, and forth. Only by so doing can we prompt the government to exercise its adjustment and control functions.

### **III. Government Must Strengthen Its Regulation and Control Functions Over the Market**

To suit the demands of the development of the market economy, after the government has truly withdrawn from market competition, it should strengthen its own functions along the following lines:

The first is to strengthen the macroeconomic adjustment and control over the market. At the moment, the most principal directions for adjustment and control are as

follows: On the one hand, put to order the basic economic structure by means of policy readjustment and coordinated reform in such sectors as price, taxation, finance, currency, and so forth. In particular, in the employment of the macroeconomic regulatory measures in taxation, credits and loans, prices, and so forth, it is necessary to eliminate the abnormal phenomenon of discrimination between enterprises under different ownership systems. For example, we may cite such examples as reform of the existing taxation system, and put the tax burden on a just and fair basis; the method of before-tax repayment of loans should be reformed and be replaced by one calling for after-tax repayment of principal and payment of interest; the price reform should be deepened, and a market pricing mechanism should be realized, so as to make the various categories of enterprises join the market, all as competitors in terms of equality. On the other hand, it is necessary to resort to concrete policies and measures to regulate the balancing of supply and demand so that market behavior will proceed in the direction of healthy development. In particular, when a certain commodity shows a serious imbalance in supply and demand in the market, the government should, by means of a fixed policy, regulate the supply and demand contradictions.

The second is to perform a good job in improving and consolidating the market. The decontrol and enlivening of the market, and the improvement and consolidation of the market, complement each other. One is loosening, the other is controlling. The further the loosening, the stricter the control; and the more flexible the loosening, the more detailed the control. So-called "being strict and in detail" imply that the various statutes must be complete and tight and the improvement and consolidation work must be deep and detailed; otherwise it will not be possible to stop the eruption of so-called "silkworm battle," "cotton battle," and so forth. Government will lose its control in price fixing and price guiding, deployment and movement of planned commodities will be difficult, market prices will rise in rotation, and the market mechanism will not be able to play its role. For example, after many years of actual practice, people have come to understand that only under specialized control will commodities like chemical fertilizer, farm medicine, and plastic film for agricultural use can be of help to the development of agricultural production; likewise, important agricultural sideline products such as grain, cotton, and edible oils must be handled by a small number of approved enterprises. This method is the only way the market and the people's living can be stabilized.

#### Issues in Forming Shareholding Enterprise Groups

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[Article by Wang Bin 3769 1755, edited by Shen Zhiyu 3088 1807 3342: "A Study on the Forming of Shareholding Enterprise Groups"]

[Text] I. Conditions and Target Structure in the Formation of Shareholding Enterprise Groups

In our country, the social environment for the development of shareholding enterprise groups has begun to appear. First of all this is seen in the formation of the socialist commodity operation mechanism and the fixing of the status of the enterprise commodity production entrepreneur. In the socialist commodity economy, enterprises are beginning to face daily increasing competition pressure. If enterprises wish to enhance their ability in competition, survival, and development, they must carry out capital accumulation. This can hardly be accomplished by the efforts of single capital accumulation units but must be accomplished through the process of capital centralization by means of voluntary combination or compulsory merging.

The development of lateral economic combination naturally demands paying highly important attention to the role of the market mechanism. Since combination takes as its basis the specialized division of work, the extent of the development of division of work determines the width and depth of the development of lateral economic combination. Lateral economic combination is the natural product of the development of commodity economy, whereas development of the commodity economy is inseparable from the full development of the market. Refutation of the market and the market mechanism is equivalent to slaughtering lateral economic combination.

Under the existing structure, the state principally depends on the administrative structure to organize the activities of the national economy and on the administrative structure demarcating and allocating the material resources, investments, and credit and loan funds. In the situation of the stringent operation of the country's national economy, both material resources and capital are seriously short or lacking. This affects the survival and development of the enterprises. Hence, if only the administrative structure still holds the material resources and the capital funds, the state of the enterprises being the appendices of the administrative structure can hardly be altered, and even in the case of the new economic combination bodies (companies and enterprise groups), they may also become the appendices of the administrative structure and thus revert to the state of the traditional structure. Therefore, in order to push combination and establish a new type of industrial organizational structure, the way out is to push the market's full development, establish an integrated and unified market system (embracing a product market, material resources market, capital funds market, technology market, labor forces market and security market), and firmly cut off the father-son relationship between the state and the enterprise so that the enterprises (or enterprise groups) will shift from being subordinate to the state and the administrative structure to being subordinate to the market, and so that the separation of government from enterprise functions may become a reality.

The purpose of the development of enterprise groups is to set up a new type of enterprise organizational structure which is suited to the market environment and takes



the enterprise group as the principal body. It should satisfy the demand from three sides: 1) Realizing the competitive reorganization of the enterprises' existing volume of assets, the competitive reallocation of society's expanded reproduction funds, and the competitive demarcation of the enterprises' market shares, so as to enable the enterprises to possess the motive force and ability for long-term development; 2) forming a specialize cooperative network with the enterprise group as the operation main body; and (3) possessing an innate mechanism for continuously reorganizing and coordinating the essential factors of production which is suited to the demands of the changes in the market environment. This implies forming, under the conditions of fixing the enterprise's status of a legal person and according the enterprises with the decisionmaking power in operations, by the enterprise of a self-organization of the flexible type.

The target structure of enterprise groups which conform with the above-mentioned three demands can only take the shareholding system as the basic structural form. Because enterprises combined by means of shareholding relations have the prerequisite of the enterprises separately possessing legal status and property rights, the constituent members still possess all the legal and economic obligations and rights; but regarding the leadership's operational rights, they are subjected to the restriction and control of the shareholding enterprises on account of the share-right relationships. Thus, the relations between the enterprises are all determined by the ratios of shareholding and do not bear any administrative subordinate relationships. In enterprise groups of this kind of structure, the relations between the pivotal enterprises are relatively stable whereas the leading enterprises can chance following the demands of the changes in market environment.

Following the reform of industrial management structure, the breaking up of companies of an administrative nature weakens the administrative control over the enterprises on the part of the relevant departments in charge and the demarcation of interests by regions and departments begins to be broken, the enterprises have a larger decisionmaking power to select combination partners, and lateral economic combination has shifted from the loose type of combination bodies built under the principle of the "3 no changes" to the closely knitted type of combination which breaches the administrative subordinate relationship, channels for financial remittance and delivery and the relations of the ownership system. Undoubtedly this lays a good foundation for the growth of enterprise groups of the shareholding system in our country.

## **II. Special Features of Shareholding Enterprise Groups in our Country**

Followings the above-mentioned line of thought, the concrete structural form of enterprise groups of the shareholding system is as follows: Based on the dimensional structure of the internal constituent enterprises of

enterprise groups, we may divide the enterprise groups into two categories. One category takes a huge backbone enterprise as the nucleus and, together with a number of medium-sized and small enterprises, forms an enterprise group (such as the 1st motor vehicle and the 2nd motor vehicle groups); another category takes many large backbone enterprises of substantially the same strength to form the nucleus and together with a number of medium-sized and small enterprises to form a combined type of enterprise group (such as the four electric power station equipment groups already listed in the state plan). As for the former, the nucleus enterprise will control or hold the shares of enterprises of the closelyknitted or inseparable layer and semi-closelyknitted or semi-inseparable layer; while cooperative relations of a contractual character will be maintained with the enterprises of the loose and scattered layer. At the same time, the constituent members can also hold the shares of the nucleus enterprise, thus forming an enterprise system of mother company, children companies, related companies and cooperative enterprise. As for the latter, each and every nucleus enterprise can form its own enterprise system. At the same time, between the nucleus enterprises of the various enterprise systems, they may form a combination body through reciprocally holding each other's shares.

The stock and share operation form of enterprise groups, under the conditions of unchanged ownership right of the constituent member enterprises of the groups, calls for merging or coagulating, by means of a powerful economic right of usage, the essential factors of production, such as capital and so forth, belonging to principal bodies of different ownership right or interests into a unified and organic production and operation system. By so doing, the ownership right of the means of production originally owned by different principal bodies is ensured and preserved, and their separate economic interests are also ensured. That is, through shareholding operations of the enterprise groups, certain special features of the stock and share system are dexterously combined with the conditions and demands of the development of economic combinations. Concretely speaking, several special features emerge:

1. Nature of layers or levels. The shareholding groups should embrace two combination links. The first is capital link of a stock and share nature, and this is the principal line. The second is a contractual and agency or trust agreement of a long-term preferential nature. Based on this four separate levels may be demarcated: nucleus level, share-control level, shareholding level and fixed cooperation level. The first three levels should be built on the foundation of the shareholding system while the 4th level should be built on a legally effective contract or agreement. Seen from the degree of tightness of the combination, the nucleus level is the substantial or actual portion of the group and together with the share-control level it forms the tight and close level of the group, and the shareholding level is a semitight and close

level, the fixed cooperation level and enterprises accepting trustings from the group form the loose and scattered level of the group.

2. Separation of the two powers on the basis of the enterprise legal person's shareholding system. As a result of the tight-and-close level and the semitight and close level of the group enforcing the shareholding system, shareholding and share-controlling relations are generated among the member enterprises. Shareholding enterprise groups created "separation of the two powers" in a higher-grade and matured form. The outstanding special feature distinguishing shareholding enterprise groups from enterprises of other systems is that the ownership right is pluralistic and socialized and that the relative independence of the ownership right of the enterprise is fixed in legal form. After obtaining the legal person's qualifications, shareholding enterprise groups in form have become civil bodies no longer dependent on the end owners of the assets and independently exist, having the power of owning, using and making free disposal of the assets. Although the shareholders, as members of the enterprise group, may at will buy or sell the shares and stocks, they have no right to handle the assets of the group. Hence, enterprise groups under the shareholding system separate the highest level of operation right from the property right and thereby in modern enterprises form a comparatively rational structure of ownership right.

3. Group managers' meeting. the managers' meeting is formed by the managers (plant heads) of the member enterprises of the group. it has in effect the functions of the general shareholders' meeting (or meeting of board of directors) of the group. that is, on the basis of reciprocal shareholding, despite the fact that those holding the share rights are the enterprise legal person shareholders, those representing each and every enterprise legal person in exercising the shareholders' right are all their respective representatives—managers (plant heads). Hence, their congregation forms, in reality, a general shareholders' meeting.

4. Coexistence of tax and profit. The group's member enterprises should all enforce the distribution system of the coexistence of tax and profit. After payment of the income tax at the rate fixed by the state for shareholding enterprises, the legal person shareholders' meeting shall determine the distribution of the aftertax profit.

5. Taking the enterprises with strong competitive power as the dragon head, push the operation of many varieties of products or product series. Under our country's current conditions, it will not be workable to copy en bloc the enterprise group of the financial system which is participated in by financial syndicates and commercial groups or which purely emphasizes capital combination and does not seek the innate liaison of products. We can only start from reality and, on the basis of lateral economic combination, develop enterprise groups of an

industrial nature which cooperate and coordinate with respect to products and carry out mutual liaison in such sectors as operation, technology and production.

6. Establishing a joint investment company. Under the conditions of the specialized banks in our country not having been fully commercialized and the banks' current inability to serve as the nucleus of groups, and taking into consideration the special feature of the shareholding groups being a capital combines with economic innate liaison and the financial enterprises playing an important role inside the groups, shareholding groups, subject to the decision of the managers' meeting, form an investment company. On the one hand, it merges funds, centralizes the use of funds, and the various member enterprises grant a series of loans; on the other hand, it can invest in enterprises with close connection with the development of the group, develop new projects and new products, continually expand the group's businesses and achieve the objective of the constituent members of the groups being of one heart and mind.

7. Establishing a powerful group supply and marketing network. Under the conditions of a socialist commodity economy, an enterprise group must possess strong operational functions. Its functions are three: 1) It organizes the exchange of material resources inside the group; 2) It purchases raw materials for the member enterprises from outside the group; and 3) It takes care of the sales of the products of the member enterprises and the prompt feedback of market news and intelligence. In a certain sense, the sales and marketing network of the group is the organizer of the groups' flows of material resources and news and information.

### III. Operational Difficulties of Shareholding Enterprise Groups and Their Countermeasures

Seen from the current conditions, the operations of our country's shareholding enterprise groups are still in the probing stage and in it there are certain problems urgently needing study. 1) The problem of property ownership of enterprise groups is currently still not clear in theory. In actual practice, inside an enterprise group, if the nucleus enterprise is in joint operation with local enterprises, the property ownership relations seem to be relatively clear; but if in the joint-share operation they are all enterprises under the system of ownership by the whole people, then the problem of property ownership cannot be said to be clear. Hence, in group operations, the bearing of the risks and burden of the enterprise group's operations is not easily determined. 2) Since the shareholding rights of enterprise group under the shareholding system are scattered, whether after all shareholding operations strengthen or weaken the cohesive power of the group is for a time still unclear. In particular, in our country the majority of the enterprises belong to the products (technology) cooperation type and are currently being transformed to other forms. Once they are separated from the group body, it is still not categorically solved how to reduce their risks and enable them to

rapidly become independent. 3) Once the group's stocks and shares are formed, they will develop toward a higher grade such as in the case of stocks and shares the management problem of stocks and shares operation will appear. That the shareholding enterprises will meet with various kinds of difficulties in within reason and the problem limes in our countermeasure.

First, some member enterprises are willing to give up their legal person status and effect the unification of their assets with those of the "dragon head" enterprise. In the organization of shareholding groups, this unification process should not be simply mixing the properties but should be amalgamation on the stock and share basis. Legal amalgamation requires the assessment of the assets of each and every enterprise and following this the conversion of the net value of the assets of an effective productive nature into the shares of the newly organized group's mother company. The original departments in charge of the various amalgamated enterprises should entrust representatives to sit in the mother company's shareholders' meeting in the capacity of shareholders and to enjoy the rights and privileges that shareholders should have in policy decision-making and distribution of benefits. This sort of mother company becomes an economic entity of the form of a stock and share trust which unifies tax payment and is wholly responsible for profits and losses and possesses the aggregate status of a legal person; the component units will lose their legal person status and become the branch companies or business departments inside the mother company (they jointly form the nucleus level of the enterprise group).

Second, when forming the enterprise group, many enterprises may on the one hand be willing to take part in the group's close union and on the other hand may demand the retention of their legal person status. Regarding this portion of enterprises, the form of children companies may be adopted and make them join the group's 2d level, namely, the share-controlling level.

Third, the constituent units scattered at the shareholding level of the group include those enterprises and units cooperating and coordinating with the mother company and the children companies such as the backbone production enterprises, commercial enterprises, commercial agents abroad and scientific research units collaborating in carrying out technological development. Although the group's mother company and children companies have shareholding relationship with them, the share-controlling stage may still not be reached. In such a case, these constituent units form the related companies of the enterprise group and each retains its status as a legal person.

Fourth, as for the constituent units which only maintain cooperation in production technology with the mother company and the children companies and do not have property relations with them, they may join the group's cooperation level and, based on such contractual forms as contracts and agreements, carry on long-term cooperation and coordination with the group's close level.

Fifth, the state should correspondingly establish and perfect the financial and currency market. Buying and selling of shares and stocks should be legalized. The government should strengthen its control of the security market so as to maintain economic stability. query line 22

**Symposium Explores Reform in Circulation Field**  
*HK1007073789 Beijing JINGJI RIBAO in Chinese*  
30 Jun 89 p 3

[Report by Liu Junying 0491 0193 5391 and Song Ze 1345 0463: "Summary of National Symposium Attended by Middle-Aged and Young Economists on Reforming the Circulation System"]

[Text] At this critical stage of China's economic structural reform, while the economic development strategy is undergoing a major change, the disorderly condition in the circulation field has become more and more obvious, and market growth has encountered a great many obstacles. How to overcome this predicament and establish a new order in commodity circulation and on commodity markets has become an increasingly urgent subject of study. In early May, the Finance and Trade Institute of the Chinese Academy of Social Sciences, the price group of the Development Center of the State Council, the Circulation Department of the State Commission for Restructuring the Economy, the Commercial Economics Institute of the Ministry of Commerce, and the Trade Department of the People's University jointly sponsored a national symposium on reform of the circulation system in Dayong City, Hunan Province. The symposium was attended mainly by middle-aged and young economists and theorists. The participants unanimously agreed that, in recent years, the serious difficulties in the reform of the circulation field were mainly caused by the "four evils": inflation, barriers between different localities and between departments and localities, commercial fraud, and doing business through power.

At the symposium, the participants fully affirmed the reform achievements of the past 10 years in the circulation field, and they pointed out that the greatest error was that the importance of cultivating the markets in the economic reform was underestimated. They said that, to achieve the reform objective of combining the planned economy with the market economy, the most important link is to establish a proper market model and cultivate an integrated market system. However, in the process of reform in China, it was too late to adopt the market orientation, and no resolute step was taken toward this orientation. Thus, the reform did not go beyond the model of subjecting the economy to mainly planned regulation, with the market as a supplementary regulatory factor. While the role of the market was underestimated, the role of the government's interference was inevitably overestimated, and the creation of new systems in line with the role of the market was neglected. Even in the aspect of "regulation by market forces," there was excessive interference and disturbance from those who wielded administrative power. Therefore,

in-depth reform in the circulation field must actually be market oriented so that the distribution of resources, the balance between supply and demand, the coordination of production with demand, and income distribution and property rights can all be really based on the regulatory function of the market forces; otherwise, it will be hard for the reform to make new and substantive progress.

In view of these problems, the participants held that at present, the first thing to do is to improve the government's role in the market, and it is necessary to overcome the idea that the government will not make a mistake. In reality, excessive government power will only hinder the growth of the commodity economy. The government's role in the market should concentrate mainly on cultivating growth of the market itself, working out plans, and exercising overall adjustment and regulation. At the same time, it is necessary to overcome the following obstacles to the formation and growth of markets in our country: 1) The resources obstacle. This refers mainly to the shortage of resources, which constrains the formation and growth of markets. Realizing the actual condition of the resource shortage in our country and formulating overall policies to create a relatively relaxed economic environment are important prerequisites for smoothly advancing reform in the circulation field and promoting formation of markets. 2) The regional obstacle. There are obvious similarities in economic structure in different localities, and transportation and communication conditions between various localities are poor. This impedes regional economic cooperation and the division of work from developing in depth, thus obstructing formation of an integrated market system and constraining the overall function of markets in distributing resources. In addition, due to their own interest considerations, local governments have increased their ability to interfere in and control the economy, and this has also intensified economic separation and blockades between different localities. On the one hand, interference by the local governments has an antimarket tendency; on the other hand, in the initial period of reform, the organization and construction of markets cannot be separated from the function of the local government. 3) The functional obstacle. State-run commercial enterprises lack competitiveness in the markets. The fundamental reason is that they have to perform dual functions. That is, they not only do business in the market, but also have to play a role in regulating the market supply. These two functions are contradictory. This makes it hard to distinguish between losses caused by improper business management and those caused by policies. It is also hard to ensure the effective use of financial subsidies. 4) The obstacle caused by confused government functions. 5) The obstacles caused by the enterprise system.

The symposium participants held that the reform practice of the past 10 years showed the importance of establishing a proper target model for reform in the circulation field. At present, it is urgently necessary to

ascertain this both in theory and in practice in order to advance the reform of the circulation system in depth. They called for establishing a circulation system in line with the planned commodity economy through reform. This system should guarantee the free circulation of commodities and also guarantee the state's overall control and regulation. The new system should be able to coordinate the operation of the two sets of mechanisms. In general, under the new system, "the state regulates the market, commodities circulate in the market in light of the law of value, and enterprises independently operate in light of the market conditions." In the operation of this system, the state guides and exercises control over the market through economic, administrative, and legal means. As the economic means, the state-run commercial enterprises, material distribution institutions, and supply-marketing cooperatives can directly take part in market circulation; as the legal means, the state departments concerned can formulate a series of rules and regulations for the market and can exercise legal supervision over the market operation; as the administrative means, the state can issue decrees to maintain a unified national market so that the state's indirect management and planned guidance can materialize. The circulation system in the planned commodity economy must be built on the basis of a multitude of independent circulation enterprises whose property rights are clearly defined. Only with the participation of such entities can the new circulation system truly be formed and operate. In general, the ownership forms of these circulation enterprises should be diverse. Some should be owned by the state; some by collectives; and some should be private enterprises or partnership enterprises. As for organizational forms, the circulation enterprises can be companies, enterprise groups, large and medium-sized shopping centers, manufacturing enterprises that also engage in marketing, fairs, agents, or auction firms. They can engage in either wholesale business, retail business, or even barter and futures trading.

## PROVINCIAL

### Hunan Successes, Failures in Construction Investment

HK1507024989 Changsha Hunan Provincial Service in Mandarin 2200 GMT 14 Jul 89

[Excerpts] In the 1st half of the year, Hunan governments at all levels further implemented the central authorities' guideline on improving the economic environment and rectifying the economic order, and reduced investment and controlled construction projects in line with the State Council's unified arrangements. A good momentum has appeared in this effort. According to the provincial statistics bureau, investment in fixed assets completed during the period was 1.747 billion yuan, a drop of 5 percent compared with the same period last year, while the number of construction projects declined by 19.9 percent. This included a drop of 88.7 percent in the number of new projects started. [passage omitted]

However, some investment was still not covered by the plan. Construction investment not covered by the plan during the period amounted to 214 million yuan, an increase of 3.2 percent over last year. This was the main factor causing the swelling of investment. In addition, there was failure to strictly control new construction projects. A few projects on which work had been halted or suspended resumed construction. The economic returns on construction projects were not good enough.

## FINANCE, BANKING

**Baoji City Improves Financial Market Procedures**  
40060618 Beijing JINGJIXUE ZHOUBAO in Chinese  
28 May 89 p 8

[Article written by Wei Juyi 7614 1565 5030, director of People's Bank of China, Baoji Branch: "Baoji Improving Its Financial Market Through Administration and Reorganization"]

[Excerpts] Baoji is one of the cities chosen nationwide to launch a reform of its financial system. Last year—during which there was an overheated economy and a severe price hike—[passage omitted] Baoji persevered in improving its financial market, establishing financial order, and pursuing financial reform under new conditions.

### I. Improve Control of the Short-Term Market and Refine the Mechanism That Regulates Funds

During the financial reform, Baoji established the first market for lending and borrowing cash reserves, and for interbank lending and borrowing of short-term loans. The market helps cash flow horizontally, eases the disparity between the supply and demand of funds, and provides a positive role in supporting economic development. [passage omitted] The financial market appears to have these problems. "The source of funds is decreasing sharply, the demand for funds is increasing drastically, and the tendency to default is getting serious." In response to these problems, [passage omitted] we insist that there should be a daily opening quotation of the "cash reserves" loan market, which makes good use of idle cash assets. During the last four financial quarters, the national market for transferring and borrowing funds was quite inactive—basically, there were calls but no offers. The financial market in Baoji, however, was very active. It completed transactions involving 570 million yuan; this amounted to 15.7 percent of national transactions worth a total of 3.63 billion yuan. Most important, we did three things:

A. We developed a better control mechanism to ensure the rights and benefits of account transferees and transferees. To insure that the funds are secure and repaid, we use the following method: for short-term—within 7 days—borrowings, we request that participants exchange drafts among themselves and pay the amount due on the said day. For longer term loans, both participating sides have to sign an agreement. The document becomes legal

after it is signed by the department of financial market control. This way, borrowed funds are ensured of being used only for paying immediate outstanding bills or making up for insufficient cash flow. Borrowed funds are not to be used as fixed capital investment or advance credit payment. The principle of disallowing short-term loans for long-term purposes is clear and precise, and the order of the market is maintained.

B. We stipulated strict discipline and penalties; there is a heavy fine for overdue bills: the People's Bank has raised the penalty interest rate from 0.3 percent to 0.5 percent. Five member companies have already been fined 62,000 yuan for overdue loans of 21 million yuan. The interest rate payment functions as a lever that helps our members to understand the responsibility of fund lending and borrowing and standing by their agreement.

C. [Passage omitted] Our financial institutions, though they established in Baoji, set their eyes on other provinces and the whole nation as well. In order to assemble funds, these institutes cultivate and organize extensive channels and connections. They have obtained loans, on different occasions, from financial organizations in Guangzhou, Yunnan, Jiaxing, and within the province. They have hosted and operated trading sessions in money markets in eight cities in Shaanxi, Gansu, and Sichuan; and have made loan transactions worth more than 49 million yuan. These funds play a crucial role in easing the financial straits of specialty banks, and in helping out with procurement.

### II. Improve the Regulation of Check Clearances and Help Mediate Channels for Settlement

The Tongcheng Bill Clearing Center, from the time it was established in Baoji, has always insisted on "direct trading, paying the differences, and settling accounts on the spot." The center combines three jobs: transferring loans, providing information on funds, and clearing checks. It helps to circulate funds, to settle accounts, and to increase fund efficiency in society. Last September our country adopted the monetary policy of tightening credit and controlling the circulation of currency. The units taking part in exchanges were usually short of cash reserves, and some abnormalities began to appear. [Passage omitted] For a while, banks had some difficulties in settling accounts, hence their reputation suffered greatly. Enterprises expressed their general dismay, and the bill clearing center went into a slump. To tackle the above-mentioned problems, the city bill clearing center adopted five rules for administration and reorganization, so that Tongcheng could resume normal operation.

A. We have established a system that demands deposits for bill clearing. All units participating in bill clearing will have to put up a certain ratio of cash deposits. The bill clearing center will hold on to the deposits and use them only when the units have insufficient cash reserves when clearing bills.

B. Tax bills, which are 30 percent of the bills exchanged, are taken out of the bill clearing center. Individual collectors should hand those bills directly to the treasury. This way, the bill clearing center has a smaller workload and taxes are paid surely and promptly.

C. The bill clearing center reinforces the procedure of fund lending and borrowing in order to help the People's Bank, which has had to cover insufficient payments. After each exchange, if there are insufficient funds for bill clearing, the People's Bank will enforce a one-day lending and borrowing limit within the banking system.

D. The People's Bank will, within a certain limit, gather an appropriate amount of short-term loans for bill clearing in Tongcheng.

E. The discipline of bill clearing is strictly carried out. We have intensified our effort to inspect and investigate discipline problems. As for those who willfully stall on their bills, send bounced checks, and write overdrafts, we will take necessary economic sanctions against them to protect the right and profits of others. We have so far exchanged 950,000 bills and cleared 6.2 billion yuan of funds. The circulation of bills is 79 percent, up from 68 percent in the past. The capital flow is 3 to 4 days faster than before, and enterprises save 3.8 million yuan in interest payments. All participating units give this service a good rating.

### III. Improve the Control of Foreign Exchange and Give Preference to Investment in Foreign Exchange

Since the government decides last year to freeze the foreign exchange quota, the market price of foreign exchange has been open, and the index for spending foreign exchange has been abolished. Baoji crossed over its administrative boundary and works actively to recoup its foreign exchange. The city went through different channels to assemble funds in foreign currency. It has acquired more than \$20 million from organizations in and out of the city. In order to insure that this limited portion of funds in foreign exchange will be spent on urgent items of economic construction, we have implemented four rules:

A. We have tightened controls and concentrated locally all the foreign currency that is kept in reserve. The Foreign Exchange Control Bureau integrates and regulates the foreign currency earned by units in different counties and districts. These funds, which had been either scattered about or stagnating for over a year, are assembled together, and the foreign exchange is now spent more efficiently.

B. The reserve foreign exchange quota can be borrowed in advance. Enterprises can be paid in advance a portion of the foreign currency (deposit payment) that they will earn; this is in accordance with the amount of foreign exchange they earn from export trade. After the enterprises receive

the proper amount of foreign reserves, they then refund their advances. This procedure enhances an enterprise's ability to earn foreign exchange.

C. We take strong measures against foreign exchange being traded in the market. For those who want to exchange foreign currency we have a "three no's" policy: No to those who don't have the matching amount of renminbi; no to those who want foreign exchange to import scarce materials only to make profits in renminbi; and no to those who use foreign exchange to buy up domestically scarce commodities such as electrical appliances. We have already reduced spending by over \$10 million worth of foreign exchange and detected three cases of illegal trade worth \$425,000.

D. We give preference to investment in foreign exchange. We stick to our principle of "three preferences." We agree to supply foreign exchange to manufacturers of superior goods, and to foreign exchange-earning enterprises. We also agree to supply foreign exchange to the central government, which has helped local governments to import foreign commodities. According to statistics, 97.9 percent of the regulated foreign exchange in Baoji was used for items connected with the "three preferences."

### IV. Improve Management of Marketable Securities and Prohibit Black Market Trading

The business of trading marketable securities in Baoji has grown since last year. The city issued national development bonds, treasury bonds, finance bonds, and business bonds, together worth 147 million yuan. Forty-one types and eight categories of marketable securities were traded in the market, and the volume of transactions was 7.24 million yuan. Baoji has established a sales agency for provincial securities companies, and the security market has gotten better. Now that various kinds of marketable securities have been issued and traded at the market in large quantities, "speculators" and "scalpers" have surfaced for action. In the nick of time the City People's Bank, Public Security, and the Business and Industry Administration together have worked out some finance regulations, such as: "Reinforcing The Rules that Manage the Marketable Security Market," and "Certain Regulations for Administering Stocks and Bonds" for the city. These regulations will ensure the well-being of the business of trading securities. Baoji has been chosen as a trial place for transferring and trading of national bonds as well as two other sets of treasury bonds. We have to strengthen the leadership in our organization, as well as to start on-the-job training to improve market management. We combined programs and made active preparation to open seven trading places for treasury bonds. Since its opening in mid-June, the market has been active, prices stable, and discipline good. There has been less black market trading, and the reputation of treasury bonds has gone up. Total transactions in the city amounts to 6.75 million yuan, with daily trading of 43,700 yuan.

#### V. Improve the Administration of Social Fund Raising and Help Make Fund-Raising Activities Wholesome

After banks tightened credit, fund raising within organizations and in society became popular. Many of these fund-raising activities did not follow correct procedures. [passage omitted] We dealt with this problem by issuing the regulation "Ways to Administrate Stocks and Bonds." We adhere to the rule that says all stocks and bonds must be submitted for approval before being issued by any enterprise. No stocks or bonds can be distributed unless they have been examined and approved. We have built our foundation on various government bonds and have, so far, approved 15 million yuan of local treasury bonds, 1.56 million yuan of stocks from enterprises, and 39.8 million yuan of local business stocks. The result of this is that fund raising is regulated, stock distribution is legal, and sales are good.

In the past year the finance organizations in our city on 400 occasions offered incentives to attract new depositors. In some cases individual organizations were out of line in their award setups, and the management of sales market control was in disarray. Some of the employees were involved in fraud where "by chance" they bought winning lottery tickets. Therefore, the City People's Bank has come up with six regulations:

1. Units who want to offer incentives for savings must conduct research ahead of time to find out whether it would work or not. They should lay out their schedules and plans. These plans must be checked and approved by the People's Bank before they can be carried out.
2. Expenses that come from the incentive offers should be counted as unit business expenditures. These expenses should not, under any pretext or circumstances, be taken from the interest derived from a client's savings account.
3. It should be arranged so that no fewer than 40 percent of the participants will receive prizes, and the first prize should not be more than 3,000 yuan.
4. The public notary and public security must supervise and coordinate with units participating in incentive offers.
5. We must improve our market management, to discourage and crack down on any scalpers involved in the illegal activity of scalping lottery tickets.
6. Those who proceed without prior approval, who do not follow the interest-rate rule, who use unethical methods to attract deposits, and who engage in malpractice, once discovered, will face economic sanctions and administrative penalties.

After we announced the six rules, financial disciplines have been more strictly followed, and conditions are no longer so disorganized. The market is again assured of healthy development.

## FOREIGN TRADE, INVESTMENT

### Official Discusses Problems in Foreign Trade Statistics

40060421 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 2, 28 Feb 89 pp 33-34

[Article by Xie Renrong 6200 0088 2837: "A Discussion of Several Problems in Foreign Trade Statistics"]

[Text] As China has opened up to the outside world, foreign exports have skyrocketed in many regions. At the same time, as we have gradually stepped up our restructuring of foreign trade, statistical analysis of various foreign export indicators has become more and more important. This article summarizes certain practical methods used in my county and discusses several problems that plague foreign trade statistics. I invite your comments.

#### I. Defining Statistical Indicators

Foreign trade indicators are intended primarily to reflect a region's or an enterprise's capacity to supply export goods and produce foreign exchange. First, as far as the locality is concerned, three statistical indicators are most important: 1) The total volume of export goods (at current prices), which includes the total volume of export goods passing through all ports, the total volume of exports from enterprises with import/export permits (including enterprises having three capital sources), and income from services and other nontrade sources; 2) The total volume of export goods passing through all ports (in current prices); 3) The volume of county foreign trade procurement (in planned prices). Second, as far as most foreign trade enterprises are concerned, the most important thing is to calculate the value of foreign trade output (in fixed 1980 prices) and the volume of foreign trade procurement (in current prices). This primarily includes three categories: the direct export index; the indirect export index, which primarily reflects a region's latent export capacity; and the income from conversion charges for the three forms of import processing and compensation trade. Other categories, such as products, output, and foreign exchange generated can be tabulated according to conventional methods. Because there are currently few other export enterprises and not much in the way of services and tourism, it is sufficient to break down the statistics on these categories once a year.

#### II. Defining Statistical Specifications

Statistical analysis of foreign export trade adheres primarily to two principles: 1) All export products should be tabulated; and 2) Duplicate statistics should be avoided. It is worth noting that we cannot base our foreign trade statistics simply on whether an enterprise can distinguish what trade earns foreign exchange. As far as foreign trade enterprises are concerned, right now the following situations are difficult to understand, and at reporting times mistakes are often made.



First, because we do not carry duplicate statistics for links in the production chain, regardless of whether foreign exchange is retained and whether retained funds are transferred back to the local area, upon being purchased by foreign ports, everything that is exported directly should be tabulated in the direct export statistics. Right now, some enterprises that export through foreign ports retain foreign exchange profits for both the locality and the enterprise, some only retain foreign exchange profits for the enterprise, and some retain no foreign exchange profits or do not transfer them back to the local area. More often than not this latter situation has incorrectly been regarded as not involving direct exports.

Second, when a product is a final export product, but has actually been produced or processed for an affiliated unit and has been procured and marketed by that unit and calculated in its export total, it should be figured into indirect export statistics. In order to retain some foreign exchange earnings, some enterprises are currently calculating these exports in direct export figures, which obviously may result in duplicate statistics (except when the affiliated units correspondingly reduce their export figures).

Third, when a product is a final export product but the foreign trade company or import/export unit purchases it and then converts it into an item for the domestic market or for export after further processing, regardless of whether foreign exchange is involved it should never be figured into direct export statistics. If it is marketed domestically it should not be calculated in export statistics at all, and if it is exported after further processing it should be figured in indirect export statistics.

Fourth, when a product is a semifinished export product, although a portion of the foreign exchange may be retained, the item should nevertheless be considered an indirect export.

Fifth, in the three forms of import processing and in compensation trade, reporting on revenues covering conversion costs is rather chaotic. When the foreign trade sector processes purchased or consigned materials, some enterprises make a habit of incorrectly reporting it as revenue, covering conversion costs in the three forms of import processing and in compensation trade.

Sixth, there should be reporting on foreign exchange created and retained. After foreign trade is divided up into contracts it seems particularly important to calculate the index of foreign exchange earnings. But actually, because the accounting period for foreign exchange is rather long (generally it is delayed one quarter to half a year) and it is difficult for enterprises to know what their conversion costs will be, it is hard to calculate this index precisely. Right now, we figure it using actual procurement and the average conversion cost for the previous year. It has some reference value.

### III. Statistical Methods

The traditional method of calculating foreign trade export statistics was through monthly State Statistics Bureau bulletins on foreign trade output value and total procurement, and through foreign trade company monthly reports on foreign trade procurement totals. In order to facilitate the calculation of statistics on foreign exports and obtain an accurate and prompt understanding of this county's foreign export situation (including indirect exports), the County Commission on Foreign Economic Relations and Trade and the County Statistical Bureau jointly formulated special foreign trade statistics report forms and issued corresponding statistical specifications. Each export enterprise must file a report with the authorities and each county, township, and unit concerned must collect the data and present an itemized report to the County Commission on Foreign Economic Relations and Trade. Because some indexes are difficult to figure on a monthly basis, for the time being we will just employ quarterly reports.

Because the current foreign export situation is quite complex, because there is an obvious conflict between the need for export statistics and the desire to retain foreign exchange earnings and win awards, and because it will really be tough to do a truly good job, this article primarily introduces some practical methods and viewpoints utilized in this county. Everyone is welcome to make comments and share this information.

#### **Foreign-Brand Soft Drinks Threaten Local Brands** *40060630c Shanghai WEN HUI BAO in Chinese* *5 May 89 p 1*

[Article by Chen Wei 7115 1919: "Facing the Threat of 'Foreign-Brand Soft Drinks'; Foreign-Brand Soft Drinks, Such as Coca-Cola and Schweppes, Can Be Seen Everywhere in Markets, While Domestic Zhengguang and Qishui Brands Are Being Pushed Back Onto Shelves in Small Lanes and Oil and Soy Sauce Shops; It Seems That, Along With Importing, a Climate of Fair Competition Should Be Created for Domestic Enterprises"]

[Text] There has been much talk recently about the brisk market for foreign-brand soft drinks that are made in China, such as Coca-Cola, Schweppes, and Fanta. Some say that using China's limited foreign exchange to import technology to make these soft drinks is not putting it to the best use. Others think that foreign-brand soft drinks made by joint ventures threaten the domestic market and inhibit the growth of China's industrial products.

From a somewhat broader perspective, it can be found that there has also been similar talk about certain products that are produced by joint ventures with imported technology, such as Maxwell House Coffee, Lever Brothers toilet soap, and fruit delicacies. In order to clarify this talk and consider the issue from a deeper perspective, the



following questions should be asked: What is the actual purpose of importing consumer goods, such as Coca-Cola? How should the advantages and disadvantages be weighed?

Du Xinxiang [2629 9515 5046], president of the board of the Shanghai Shenmei Food and Drink Company, Ltd, a contractual joint venture between Shanghai and the Coca-Cola Company, thinks that it helps China to import capital and technology through contractual joint ventures. He said, "The Shanghai Shenmei Company chose both its factory building design and soft drink production facilities with the guidance of the Coca-Cola Company. It also adopted Coca-Cola's production technology and rules. This was a big improvement for China's soft drink production technology. The appearance of Coca-Cola, Schweppes, and Fanta filled certain gaps in China's soft drink industry and improved the quality of domestic soft drinks. The Shanghai Shemmei Company has been supplying domestic production plants with Coca-Cola concentrate made in Shanghai and allowing them to pay for it in renminbi since August 1988. It is being required that 50 percent of Shanghai's 1989 concentrate production be made in China. These steps reduce China's foreign exchange."

Coca-Cola made in China has been quenching the consumer thirsts of foreign tourists in China. Shanghai used to have to spend over \$10 million a year to import Coca-Cola needed by large hotels, but now Coca-Cola made in China has replaced imported Coca-Cola. The Shanghai Pujiang Soft Drink Plant earned a net profit of over \$5 million in 1988 because it did not have to spend foreign exchange to import packing materials, sugar, or concentrate.

Do the Coca-Cola products that are made in China pose a threat to other Chinese soft drinks? People from China's soft drink industry say that the Coca-Cola Company has set up 11 joint ventures or projects to import products in recent years in Chinese cities, such as Beijing, Shanghai, Guangzhou, Xiamen, and Nanning. Some make Coca-Cola and others make Schweppes and Fanta. Du Xinxiang, of the Shanghai Shenmei Company, said that products such as Schweppes and Fanta may put a certain amount of pressure on and speed up the production of state-owned enterprise products, but do not pose a threat to them. He said that the Shanghai Shenmei Company now makes 20,000 tons of Schweppes and Fanta a year but, since Shanghai's 1989 soft drink output will be approximately 250,000 tons, foreign-brands will not inhibit the growth of China's industrial products.

The state planning commission held another meeting with relevant production plants at the end of 1988. It imposed macroeconomic control over output of Coca-Cola, while stipulating that foreign exchange must be paid out for all easy-open Coca-Cola packaging. But since there is a very big difference between the foreign exchange and renminbi retail prices for easy-open Coca-Cola packaging, and large profits can be made as well, many enterprises are buying it

with foreign exchange or stocking it directly from certain southern provinces and cities with renminbi and reselling it at high prices. Therefore, there is still a steady stream of easy-open Coca-Cola packaging being bought on the market with renminbi.

Not only do joint ventures import products, but their sales and service approaches and methods are even more eye-catching. The Shenmei Co, Ltd delivers directly to 1,200 retail outlets in Shanghai. It has 14 salesmen who are responsible for their individual territories and for making daily contacts with customers to understand the sales situation of Schweppes and Fanta in all stores. It also supplies refrigerators to stores that sell Schweppes and Fanta by collecting security deposits according to Coca-Cola Co practices. Red and green Schweppes and Fanta billboards soared for a time over busy Shanghai shopping centers and the "sparkling and refreshing" ads reached tens of thousands of customers.

How is the Shanghai Qishui Soft Drink Plant, Shanghai's biggest soft drink production enterprise for 125 years, impressed with the aggressive sales campaigns of joint ventures? Li Jianguo [2621 1696 0948], its deputy director, and certain comrades from its market data division say that Shanghai's Zhengguang and Xianjushui (medium sweet) brands won national silver medals, while certain other soft drinks it manufactures are of very high quality and fully capable of competing with joint venture products. They said, "We are certainly not afraid of the quality of joint venture products, but we are concerned about having to compete on the following unfair terms: 1) the prices of state-owned products suffer from too many restrictions and are hard to increase, so stores prefer to sell joint venture products because their prices are higher and their sales methods are more flexible; 2) transportation difficulties cause major problems for post-sales service—the traffic office of the Shanghai public security bureau has stipulated that delivery trucks may not travel on major commercial streets, such as Nanjing Road, from 7 am to 7 pm. The Shanghai Qishui Soft Drink Plant does not have small, fast delivery vans but must use vans authorized for dispatch by tobacco and sugar departments as intermediate links for its retail sales. It is now hard to find Zhengguang and Qishui brands on Shanghai's major commercial streets, such as Nanjing Road, Huaihai Road, and Sichuan Road. Our products can be found only on tertiary industry shelves, in oil and soy sauce shops, and in small lanes and factories. Our percentage of the market dropped from 62.8 percent in 1985 to 30.6 percent in 1988. It seems that, along with importing and absorbing, attention should also be paid to creating a climate of fair competition for domestic enterprises.

**Japanese-Funded Antenna Firm Begins Operation**  
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13 Jun 89 p 2

[Text] An exclusively Japanese-funded company producing antennas started operation over the weekend in

Dalian in the wake of a growing influx of Japanese capital into this northeastern Chinese coastal city.

The Dalian Harada Industrial Company Ltd, with investment entirely from the Harada Industry Co. Ltd of Japan, is expected to produce 24 million car antennas and 8.7 million metres of electric cable annually.

All of its products are to be sold on the international market.

The initial construction of the project cost \$20.83 million. Its second phase will be started six months later, with total Japanese investment to exceed \$40 million.

"The investment environment and services in Dalian are excellent. We will not change our original investment plans," said Michio Harada, general manager of the company, at its inauguration ceremony in the Dalian Economic and Technological Development Zone.

Harada is one of the largest antenna producers in the world. Its annual output accounts for 30 percent of the total antenna output in the world.

According to local officials, other Japanese investors have the same confidence in the city as the Harada company.

Statistics show that last year the Japanese firms together were the biggest investor in Dalian. Their investment of \$53.25 million there was nearly double that of Hong Kong and Macao combined.

In other coastal areas, however, Japanese investment ranked behind Hong Kong, Macao, Europe and the United States.

The Japanese investment in Dalian is expected to increase by several times if everything goes normally.

## AGRICULTURE

### Agricultural 'Dilemma' Discussed, Solutions Proposed

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[Article by Lin Li 2651 4539: "Discussions on the Dilemma of China's Agriculture and the Way Out"]

[Text] *After a period of sustained rapid growth from 1979 to 1984, China's agriculture has progressed haltingly in the 4 years since 1985. Thus, the dilemma of agriculture and the way out for agriculture has again become a hot topic of concern and discussion among economic circles throughout the country. Many different opinions have been put forward, the most important of which will be discussed below.*

### I. Various Analyses of the Crux of the Dilemma of China's Agriculture

To sum up, four different types of analysis have been presented in the discussions:

A. The dilemma of China's agriculture is the result of subjective faults. This analysis involves the following viewpoints:

First, due to the 6-year period of rapid agricultural growth between 1979 and 1984, people have become too optimistic, particularly since the bumper harvest in 1984. However, the temporary and structural nature of the situation in which the peasants found it difficult to sell grain has not been made clear, thus it has not been made clear that this is not a general phenomenon. Therefore, the pressure of spurious grain surplus has been exaggerated, and the peasants' prosperity and the self-development potential of agriculture have been overestimated. As a result, a series of policy and measures for suppressing agricultural development have been implemented since the winter of 1984 and 1985. As a result, the prices stated in the purchase contracts of agricultural products have been incorrectly decided; the price of the agricultural means of production has increased substantially, leading to increases in the cost of agricultural production and decreases in economic returns; the state's investment in agriculture has greatly decreased; the practice of the state purchase of grain has been changed into the form of contract purchase; and so on.<sup>1</sup> Therefore, people who hold this viewpoint consider the irrational, inconsistent, uncoordinated, and unserious nature of the economic policy concerning agriculture to be the main reason for the stagnating and halting development of agriculture over the past 3 to 4 years.<sup>2</sup> A second viewpoint considers the fundamental reason for fluctuations at different stages to be the incorrect choice of an economic development strategy—The strategy that has been implemented ever since the establishment of the PRC focuses on heavy industry and on sacrificing agricultural development for the strengthening and developing of heavy industry. Under this strategy, agriculture has been made subservient to the policy of industrialization and has been assigned a subordinate role in serving industrialization. The implementation of such a strategy has resulted in a policy that discriminates against and exploits agriculture. Moreover, whenever the agricultural development situation is favorable, peasants will be required to turn over more to the state to support industrialization. However, when agricultural development suffers setbacks, readjustments in some areas will be carried out, and only limited remedies will be given to peasants. It has been the case that agricultural development has suffered setbacks every few years, which take 3 to 5 years to recover. During the 39 years since the establishment of the PRC, agricultural development has suffered many setbacks, and a vicious cycle has formed.<sup>3</sup> Another viewpoint considers the deterioration in conditions for agricultural production to be the fundamental reason for the halting progress of China's agricultural

production, and the deterioration in conditions for agricultural production to have been caused by man, such as the drastic decrease in the area of cultivated land, predatory management of land resources, and so on. This type of deterioration by man has not only weakened the capability of agriculture in resisting natural disasters, but has also damaged the material foundation for maintaining the sustained growth of agricultural labor productivity.<sup>4</sup> Another viewpoint considers the fundamental reason for the halting progress of agricultural production over the last few years to be the inability of the means for obtaining conventional growth to play a supplementary role after the means for obtaining unconventional growth become unable to play its role. The so-called conventional means of growth refers to means that have been commonly used all over the world: 1) Raising the quality of human capital; 2) increasing the consumption volume of resources; and 3) obtaining technological advancement. The so-called unconventional means of growth refers to the means for releasing the potential productive forces, which have been seriously suppressed by the extremely unreasonable old system, and for artificially readjusting prices. China's agricultural growth before 1984 was basically the result of the role of the unconventional means. Since 1984, China has not been able to change the means of growth in time, and it is thus inevitable that the degree of decrease in China's agricultural growth has been enlarged. Moreover, the fundamental factors leading to the halting progress of agriculture will not be eliminated if the conventional means for agricultural growth cannot become the basic factors for promoting agricultural growth. The uncoordinated transformation of the means for growth is due to the fact that people have deified the agricultural production responsibility system. They have the idea that with the agricultural responsibility system, all problems of agricultural growth will be easily solved. This is the result of the usual practice of using traditional cultural consciousness in analyzing problems.<sup>5</sup>

B. The dilemma of China's agriculture is the result of objective necessity. In specifically analyzing this type of objective necessity, the following viewpoints have been raised: One of the viewpoints considers that the great difference among the comparative benefits of agriculture is the crux of the problems in agriculture. The differences in the comparative benefits of agriculture have led to great fluctuations in the production of agricultural products and to the halting progress of crop cultivation. The difference in the comparative benefits of agricultural and nonagricultural production has decreased peasants' enthusiasm in agriculture and has induced them to undertake nonagricultural production. The difference in the comparative benefits between the areas which have to transfer agricultural products to other areas and areas which receive agricultural products transferred from other areas has intensified the degree of economic conflict between these areas. Moreover, agricultural investment does not have a mechanism of inherent economic benefits, and agriculture thus does not have sufficient reserve energy. Therefore, in order to ensure stable

agricultural growth, the practical problem of the differences in comparative benefits should be solved.<sup>6</sup> Some people consider the low comparative benefits of agriculture to be an objective law. If this law is not recognized, the fundamental factors which have led to the present halting progress of agriculture will not be really grasped, and the future development trend of China's agriculture will not be grasped in a scientific way.<sup>7</sup> Another viewpoint considers that the present agricultural problems are problems of land. Under the present land structure, the extremely limited quantity of land resources have to be equally distributed. This has enabled peasants to produce sufficient amounts of agricultural products for their own consumption. But this means that the amount of agricultural products available for peasants to sell in the market is very limited. Therefore, peasants do not have the economic motive to improve their land. However, in a society in which the commodity economy is being developed day by day, any production will shrink if it loses its economic motive force. Therefore, it can be said that under the present land structure, the halting progress of agriculture is an inevitable result.<sup>8</sup>

Another viewpoint considers that although the present new halting situation of agriculture is also due to a biased and subjective understanding of the problem and ineffective work, the fundamental and main reason is that the objective law of value has not been followed. For instance, due to the fact that the concept of opportunity cost and the concept of comparative benefits have been developed and strengthened among peasants, it is inevitable that peasants will be induced to attach more attention to industry than to agriculture and more importance to circulation than production. Moreover, under the situation that the property right of land has not been clearly defined, it is inevitable that peasants would rather buy chemical fertilizers than develop green manure, as well as accumulate and apply organic fertilizers, thus leading to a natural decrease in the fertility of land and to short-term, predatory management. Moreover, due to the increase in price of the agricultural means of production, the cost of agricultural production has increased, the economic returns of agriculture have decreased, the enthusiasm of agricultural production has also been affected, and so on. We should say that these phenomena reflect peasants' quick responses to price signals.<sup>9</sup>

C. The crux of the emergence of China's agricultural dilemma should be analyzed from the macroeconomic angle of the whole national economy. This opinion involves two viewpoints. One of the viewpoints considers that in order to understand the crux of China's agricultural problems, we have to get rid of the set pattern and investigate agriculture and rural areas as a sub-system of the entire economic and social system. Without the rapid development of nonagricultural industries and urban areas, agriculture and rural areas would not be able to achieve long-term and stable development, and agricultural modernization would have to face serious structural contradictions that could

not be overcome.<sup>10</sup> Some people have further analyzed the fluctuation in grain production as being fundamentally the result of the decline of urban industrial productivity. The low industrial productivity has made the central government and urban enterprises and inhabitants unable to afford the increase in the price of grain. Moreover, ineffective industrial growth and low labor productivity have weakened the state's financial situation day by day. In 1984, the support given by the central government to agriculture reached its maximum, and many contradictions, which had been covered up, were suddenly exposed. This directly led to the great decrease in grain output in 1985 and the fluctuations in grain output from 1986 to 1988. At the same time, due to the decrease in industrial productivity, inhabitants were unable to use part of their wages to buy grain from peasants at equivalent prices, and enterprises were also unable to digest the increase in wage costs that resulted from the increase in the price of grain. Therefore, the price of grain has been kept at an unreasonable level.<sup>11</sup>

Another viewpoint considers the agricultural crisis in China not to be a Malthusian phenomenon (i.e., population growth has exceeded the growth of the production of agricultural products), nor a crisis that has emerged in the course of industrialization (i.e. a crisis resulting from the policy aimed at developing industry, accumulating funds, and suppressing rural areas), nor a crisis in surplus food output faced by developed countries, but a crisis of system defects, a common phenomenon in socialist countries. The unified purchase and supply system and the social welfare system of socialist countries have brought rigid benefits to their urban areas. When the market mechanism is adopted in selling agricultural and sideline products, the supply of grain to urban areas will still depend on state subsidies. In this way, when the demand of agricultural and sideline products increases, and when the state can no longer tolerate the financial pressure thus put on it, the supply has to be suppressed, and a crisis will result.<sup>12</sup> Some people describe this phenomenon as a "system defect in the supply system in the period of transformation toward a new development stage and under a situation in which structural contradictions have been intensified."<sup>13</sup>

D. China's agricultural dilemma is the result of the summing up of many factors. One of the viewpoints considers that the reasons for the imbalance between the demand and supply of agricultural products are: a) In a situation in which the market and price mechanisms are not well developed, the state has had to change its policy from stimulating output to limiting purchase and output to maintain a balance, and this has seriously damaged the enthusiasm of the peasants in increasing output. b) The use of unrealistic judgments, decisions, and redevelopment measures in handling the agricultural situation has not formed a motive force. c) The irrational constraints on agricultural development in the process by which the national economy is being transformed into an industrialized one.<sup>14</sup> Another viewpoint considers that the fluctuation in the supply of agricultural products is

due to mistakes made in choosing an economic development principle and in regulating and controlling the economy, and to, from a microeconomic aspect, the influences of the small-scale and diversified management of peasant households, the imperfection of the market mechanism, the disappearance of the motivating mechanism, and so on.<sup>15</sup>

## II. Different Lines of Thought on Solving China's Agricultural Dilemma

Basically, there are two major lines of thought—solving the problems within the internal realm of agriculture, and solving the problems externally.

Some comrades stress that in solving the present dilemma of agriculture, the economic structural reform of agriculture should be first deepened, and a new operative mechanism should be established. They have the following main viewpoints:

A. In solving the practical problem of the difference in comparative benefits, the law of value should be taken as guidance, and the reform of the price of agricultural products should be taken as the core. Comrades who have this viewpoint consider that in order to enable agricultural production to follow the law of value in a conscious manner, a comparative benefits regulatory system must be established and perfected from the macroeconomic aspect; the differences in comparative benefits that exist in the crop cultivating industry and between agriculture and other industries should be gradually reduced; the essential social labor input into agriculture should be enabled to produce rewards generally equivalent to those obtained by the equivalent amount of labor input into other industries; and agricultural investors and managers should be enabled to obtain an average social profit margin generally equivalent to that obtained by investors and managers in other industries. Only in this way can the enthusiasm of peasants for growing grain and for undertaking agricultural production be mobilized, can agriculture be made attractive to producers and investors, can a self-development mechanism and a benign cycle of agriculture be really established, and stable, sustained agricultural growth be maintained. They consider price to be a fundamental means for regulating comparative benefits, and the core of the economic structural reform of agriculture is to gradually establish a price system which will match the law of value. At present, the price of agricultural products should be appropriately increased, and the unreasonable relationship of comparative price should be gradually transformed through price reform. These will enable agricultural laborers to obtain substantial labor rewards and investment profits and will thus motivate the peasants to increase their enthusiasm for undertaking agricultural production and to increase their investment in agriculture. Since the shortage in the supply of agricultural products will be a long-term constraining factor to the development of the Chinese national economy and the development of the market is unsound, prices will

not be able to be completely regulated by the market supply and demand for some time to come. Therefore, a series of comprehensive policies and measures, including the use of price and other economic means, should be adopted, and a comparative benefits regulatory system that will focus on price and will use coordinated financial and taxation means and the means of goods and materials supply should be formed. This is a fundamental measure for solving China's agricultural problems.<sup>16)</sup>

B. Further reform of the land system should be promoted, the practice of optimal allocation of land resources should be adopted, and the scale of management of agriculture should be expanded. Comrades who hold this viewpoint consider that the present rural system in China can only suit the development of traditional agriculture and cannot meet the requirements of the development of modern agriculture. Traditional agriculture is labor-intensive and requires small-scale land management. However, modern agriculture is capital-intensive, and it is only on large areas of land that the amount of capital investment can be increased. China's agriculture is at a stage where its traditional agriculture is being transformed into modern agriculture. On one hand, the potential of traditional agriculture has been completely released. However, on the other hand, the conditions for modern agricultural production have not been formed. In 1979, when the rural reform was first launched, the task was to find out how to accelerate the development of agriculture on the foundation of traditional agriculture. The method to complete this task was to replace old policies with new policies, that is, to have policy changes. The present task is to find out how to accelerate the development of agricultural production on the foundation of modern agriculture. Only with the transformation of the land system can the path for the development of modern agriculture be paved and agriculture find its way out to free itself from progressing only haltingly.<sup>17)</sup> Some other comrades consider that the only way to solve the problems of the comparative benefits of agriculture is to expand the operation scale of agriculture through the transformation of the land system. This is because only when the scale of operation is expanded can farmers obtain the same amount of income obtained by the laborers of other industries and consider farming a means for obtaining income. In this way, their enthusiasm in investment can be raised, and output and economic returns can thus be increased.<sup>18)</sup> In short, the situation of a small-scale peasant economy should be changed. Otherwise, the power of China's agriculture to support the entire society will not be strengthened and may even be weakened. At present, it is not the control of prices that is to be relaxed, but that of land. If the problems of land cannot be solved, peasants will not have enough land to cultivate, and the role of the law of value will also be constrained.

C. The investment in science and technology should be greatly increased to maximize the output rate of land and labor productivity and to promote agricultural development in an accelerated way. Comrades who have this

viewpoint feel that the expansion of the production area cannot maintain long-term and stable agricultural development in a fundamental way. The key to ending the present situation of agriculture progressing only haltingly and to fundamentally solving China's agricultural development problems lies in vigorously increasing scientific and technological input into agriculture, building up China's agriculture on the foundation of science and technology, and continuously increasing agricultural labor productivity. This is because the increase in scientific and technological input has become the main motive force for agricultural development, the role of the output-related system of contracted responsibility in freeing agriculture from progressing haltingly has been weakened, and the role of the material and technological foundation formed over the past 30 years has also diminished. At present, only with the use of advanced scientific technology can agricultural labor productivity be increased in a continuous way, can a large quantity of surplus labor force be transferred to other industries, and can the quantity of labor to be used in producing agricultural and sideline products be lowered. In this way, costs can be substantially lowered, labor income can be greatly increased, and a situation in which peasants and workers receive equivalent incomes for equivalent service can be basically achieved. In this way, with the increase in scientific and technological investment in agriculture, the nature of China's agricultural situation will be changed, and people undertaking agricultural production will receive the same amount of income as, or more income than, people in other industries.<sup>20)</sup> Some people hold the similar viewpoint that in order to free agriculture from progressing haltingly, ecological agriculture, staple agriculture [zhu ti nong ye 0031 7555 6593 2814], fine agriculture [jingxi nongye 4737 4798 6593 2814], and so on, which focus on increasing scientific and technological investment, should be developed.

D. New forms of rural organization should be developed to promote further great development of the rural economy. Comrades who have this viewpoint consider that since 1979 the great development of the rural economy achieved was promoted through abolishing the people's commune system, setting up an output-related system of contracted responsibility under which peasants' families are the smallest and basic economic organization, and implementing the renovation of the rural economic organization. At present, the development of the rural economy has been obstructed and become stagnant. However, people cannot attribute all of this to the implementation of the family operation system in rural areas or use large-scale operation to negate family operation. The system of family operation adopted by peasants is and will be the basic point and the main form of the renovation of economic organizations for a considerable period in the future.<sup>21)</sup> However, due to the fact that there is no clearly defined land property right, clear definition of property, reasonable allocation system, or well-tested rules for competition and that peasant households do not have a corresponding independent legal

entity status, peasant households, being the macroeconomic cells of the rural economy, are still not independent commodity producers, but are still small peasants whose status is not clearly defined. Moreover, since most of the organizations above peasant households, such as villages, townships, and counties, are not economic organizations that are in the form of enterprises, the course of economic operation is still affected by administrative power. This type of organizational system cannot ensure a continuous, stable or sound development of the rural economy.<sup>22</sup> Moreover, for a long time, the practice of combining centralization and decentralization and the system of dual-level management, which have been taken as the basic model for the building up of rural organizations and a cooperative economy, are not real portrayals of the realities of the rural areas or the essential nature of a cooperative economy. The cooperative movement, which was launched in the form of this model, was in fact a return to the integration of government administration with commune management and was a reverse movement contradictory to the renovation of rural organizations. Peasants' aversion to and their fear of cooperativization was the negation of the adoption of this model.<sup>23</sup> The agricultural crises that have emerged in China since 1985 have not only been reflected in the halting progress of grain output and the failure of various traditional means of regulation and control to achieve their targets, but have also been reflected in the fact that a new system has not been formed after 10 years of reform, and that the operative mechanism of a new economic order has not been perfected. However, the new rural commodity economy system requires that there be new economic organizations and organization methods. The new methods for improving agricultural production and for setting up rural economic organizations should take into consideration the following points: 1) The practice that the state regulates the market and the market influences the peasant households should become the overall rural development strategy. 2) A large number of rural enterprise organizations should be developed, and a number of advanced agricultural enterprises should be set up. 3) Peasant households should be guided to develop into a form of enterprise organization. 4) The state should withdraw itself from direct organization management.<sup>24</sup>

Some other comrades have stressed that we cannot only rely on the readjustment of the internal organization of agriculture to free agriculture from the present dilemma. They hold the view that the fundamental way out for agriculture is outside agriculture. This idea involves two viewpoints:

1. The development of agriculture will depend on the promotion of industrialization and urbanization and on getting rid of the dual economic structure. Comrades who hold this viewpoint consider China's present agricultural problems to be problems that concern all of society and the whole economy rather than just agriculture. The development of rural and urban areas will

depend on the development of the whole national economy and will be promoted by rapid industrialization and urbanization. If agriculture has to be separated from the entirety of the national economy and society, agriculture and the rural areas will first have to be developed. This conforms to the method of a natural economy. The way in which agriculture and rural areas are being developed is also a process of nonagriculturization and urbanization. Without the rapid development of nonagricultural industries and rapid urbanization, the problem of surplus rural labor force cannot be solved, the ratio of the area of rural land to rural productivity cannot be increased, the scale of agricultural operation cannot be expanded, advanced scientific technologies cannot be used widely, the increase in agricultural labor productivity and land productivity will be constrained, and agricultural commodity production and the accumulative capability of agriculture cannot be rapidly developed or raised. Moreover, the self-sufficient nature of rural areas and their nature of being closed to the outside world will not be changed or eliminated, the organic relations between agriculture and other departments of the national economy and those between rural and urban areas cannot be widely developed, and peasants and rural areas cannot become rich or prosperous. In short, without the rapid development of nonagricultural industries and urbanization, the long-term and stable development of agriculture and rural areas cannot be achieved, and the implementation of agricultural modernization will have to encounter serious and insolvable structural contradictions. Therefore, the present problems of China's agriculture should be solved in a fundamental manner, and agricultural modernization should be achieved as soon as possible. If we focus only on rural areas and agriculture itself, the present agricultural problems will not be solved, we will be unable to grasp the nature and law of development of rural areas and agriculture, and we will have thus chosen a wrong general direction.<sup>25</sup> If discussions on agricultural problems are limited only to agriculture, we will have to face many insolvable difficulties such as the contradictions between the practice of increasing the price of agricultural and sideline products and that of taking into consideration the interests of all parties; the increase in state agricultural investment and the limited financial strength of the state; the practice of increasing the agricultural labor productivity and the surplus agricultural labor force, etc. These are due to the fact that the dual economic structure, in which there are differences between rural and urban benefits and agricultural and industrial benefits, has still not been abolished. Therefore, the only way to get rid of the agricultural dilemma is to get rid of the dual economic structure.<sup>26</sup> Some people think that up until 1985, the rural reform should not have been implemented alone. Since there are too many constraining factors and the external conditions have deteriorated, particularly in urban reform, which is at a standstill, a situation of dual lack of coordination in China's economy has formed. This means that the technology and economy of urban areas are more advanced than those of rural areas, while the economic operative mechanism of

urban areas is less advanced than that of rural areas. In addition, the capability of the central government to support agriculture has become weaker and weaker. With this background, agriculture will not be able to develop. Only when urban reform has achieved significant results and industrial productivity has increased can there be an abundant supply of commodities in the market, can the financial strength of the central government be enhanced, and can the bearing capacity of urban inhabitants and enterprises be strengthened, thus enabling the urban areas to give strong support to the development of the rural economy. This will thus enable agriculture to achieve great development.<sup>27</sup>

2. The basic way for agriculture to free itself from the dilemma is to implement a new strategy whereby industry and agriculture are developed in a coordinated way. Comrades who hold this viewpoint feel that in order to enable China's agriculture to really get rid of its dilemma, low-level remedies should not be adopted, and the benefit relationship between industry and agriculture should be fundamentally readjusted. Moreover, the long-term distortion of the allocation of national income and the imbalance between industrial and agricultural development should be corrected to enable coordinated development of industry and agriculture and to enable industry and agriculture to promote each other's development and to develop together.<sup>28</sup> The main points of the coordinated development strategy are: 1) Agriculture is the foundation of the national economy and is the foundation of industrial development. National economic plans should follow development priorities in the following order: agriculture—light industry—heavy industry—other industries. 2) In developing industry, the practice of extensive management should be transformed into the practice of intensive management, and industry should depend on its accumulation to increase its quality and to expand reproduction. The aims of industrial development should be providing greater amounts of modern technology, equipment, and material input for agricultural use. At the same time, industry should create more employment opportunities for the surplus agricultural labor force. 3) Commerce and the transportation, construction, and post and telecommunications industries are the internal conditions for coordinating industrial and agricultural development, while education, science, public hygiene, and other non-material production departments are the external conditions for coordinating industrial and agricultural development. Therefore, a coordinated development strategy that can match the development of industry and agriculture should also be adopted.<sup>29</sup>

#### Footnotes

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#### **Provinces Set Price Guidelines for Agricultural Chemicals, Film**

40060406 Beijing JINGJI RIBAO in Chinese  
11 Mar 89 p 3

[Draft supplied by Information Center, State Bureau of Commodity Price Administration: "Some Provinces and Cities Set Prices for Farm Chemicals"]

#### **[Text] Prices for Farm Chemicals**

##### **Sichuan Province**

1. The provincial office of commodity price administration sets the prices for overall distribution of farm chemicals (including products purchased within and outside the province or imported) by the provincial agricultural assets company to local counties, and determines the price difference for these products between the county and basic unit levels. Overall prices will be extended downward gradually. Between the county and basic unit levels, the price difference for rogor, DDVP, dipterex, and methyl parathion 1605 is 11 percent, and for other farm chemicals, 12 percent.

2. Prices for other chemicals produced locally will be determined by local authorities in accordance with differences in rates set by the province.

##### **Hunan Province**

#### **1. Management of Factory Prices**

A. Products whose factory prices come under monopoly-set management by the province include crude oil of methamidophos, rogor, dipterex, DDVP, sha chong shuang [3010 5722 7175], chlorophenamide, jia jia lin [3946 3946 4340] emulsion, jia di fen [3946 2420 4720] powder, oil and emulsion of parathion 1605, nitrofen, phostoxin, and jing wang du su [0064 1511 3021 4790].

B. Shared management for pricing of farm chemicals follows the principle set by the pricing office, which set profits not exceeding 15 percent of cost in order to determine the factory price. The maximum price of a farm chemical given permission for sale on its own is determined by the province.

## 2. Management of Retail Prices

The principle of pricing agricultural chemicals, its method of calculation, and setting the overall difference continues to be managed by the province, with the greatest overall difference set at 13 percent.

For farm chemicals purchased from outside the province by the local agricultural assets companies, a 1-2 percent handling fee added to the cost of the import is permitted, with distribution prices set by the local pricing office.

### Fujian Province

1. Monopoly-set factory prices. Factory prices of farm chemicals produced in the province are set by the provincial committee on commodities in cooperation with various production agencies, based on overall costs for raw materials.

Factory prices for farm chemicals produced in excess and beyond the factory plan are determined by the provincial committee on commodities and the local (town/city) committees on commodities, the ceilings for

which are based on costs of raw materials outside of plan plus a reasonable profit.

2. Monopoly-set retail prices for products of the same kind and quality from the same locality (town/county).

Distribution prices and retail prices for farm chemicals of the same kind, whether produced locally or shipped in from outside the province are determined by committees on commodities at various levels and by special sales offices, based on different capital costs and reasonable differences between the two. Overall distribution and retail prices for various smaller brands shipped in from outside the province are determined by sales offices at various levels and reported to the committee on commodities at that level.

### Hubei Province

Prices for planned distribution of 12 agricultural chemicals are determined by the provincial bureau of commodity price administration who has a monopoly (see table).

**Factory Prices for 12 Agricultural Chemicals in Hubei Province**

Product	Percentage	(Unit: yuan/ton)		
		Factory Prices		
		Province and Wuhan	Towns and Hill Areas	Counties (Towns) and Plains
Methyl-parathion 1605 oil	100%	15,000		
Methamidophos oil	100%	14,000		
Methyl-parathion 1605 emulsion	50%	13,000	13,460	13,590
Methyl-parathion 1605 emulsion	50%	13,300	13,760	13,900
Methamidophos emulsion	50%	10,500	10,860	10,970
Methamidophos emulsion	50%	10,800	11,180	11,290
Dipterex powder	>=90%	7,000	7,250	7,320
Dipterex powder	>=90%	7,300	7,560	7,630
Rogor emulsion	40%	14,000	14,490	14,630
Rogor emulsion	40%	14,300	14,800	14,940
Chlorophenamide solution	25%	5,800	6,000	6,060
Chlorophenamide solution	25%	6,100	6,310	6,370
Sha chong shuang solution	25%	5,300	5,490	5,540
Sha chong shuang solution	25%	5,600	5,800	5,850
Sha chong shuang granules	5%	1,200	1,240	1,250
Dicofol emulsion	20%	8,900	9,200	9,300

Note: All farm chemicals listed above come packaged in paper cartons. For packaging in wood or plastic boxes, add 250 yuan.

### Hebei Province

Prices are set for factories producing Yenjun brand of fruit emulsion.

Specifications: Pricing of agricultural chemicals sold by production enterprises to farming operation units at all levels is set at the factory price of 12,500 yuan per ton. For retail sale in the province, the price is set at 14,200 yuan per ton.

### Guangdong Province

#### 1. Management of Factory Prices for Agricultural Chemicals

A. Factory prices for agricultural chemicals are managed at different levels. Factory prices for six types—DDVP, dipterex, rogor, pyrethrin, methamidophos, and delachor—are set by the provincial bureau of commodity

price administration and the provincial bureau of petroleum chemicals. Pricing for the other agricultural chemicals are handled by the related commodity price and chemical industry offices they come under, at the same level.

B. The profit rate for capital invested is generally set between 10-15 percent, not to exceed 20 percent.

C. Where it is agreed with special management units for chemicals to be marketed jointly, or by agent alone, joint marketing units or agent units must follow prices set by the local special management unit.

D. Pricing of various farm chemicals purchased from outside the province by various farm operation units in the province is based on the cost of the incoming product, to which is added a predetermined overall charge.

## 2. Management of Market Retail Prices

A. Pricing for the six farm chemicals—DDVP, dipterex, rogor, pyrethrins, methamidophos, and delachor—follows a partially overall retail pattern.

B. Besides the six farm chemicals just mentioned, the retail pricing or maximum pricing of other farm chemicals is set by commodity pricing offices on the town and county levels, based on cost of the chemical purchased elsewhere, to which is added a predetermined overall charge, and supply and demand conditions.

C. The overall fees considered in retail sale of farm chemicals (including operation management fees, interest, damage and storage costs, profit) are determined by a classification system. The maximum overall fees for various classes are determined as follows—class I: rates for farm chemicals in powder form are set at 6 percent at provincial and town levels, 10 percent at county levels, and 12 percent at the local base level; class II: rates for other farm chemicals are set at 5 percent at provincial and town levels, 7 percent at county levels, and 10 percent at the local base level.

### Prices of Farm Chemicals Subject to Monopolized Distribution in Shandong Province (Partial)

(Unit: yuan/ton)				
Product	Specifications	Packaging	Factory Price	Overall Retail Price
Dipterex	Content $\geq$ 90%	20-kg plastic bag, paper carton	4310	4960
DDVP	Content $\geq$ 80%	1-kg glass jar, paper carton	7700	8900
Rogor	Content $\geq$ 40%	1-kg glass jar, in packing box	8030	9280
Methyl parathion 1605	Content $\geq$ 50%	1-kg glass jar, in packing box	13000	14950
Ethyl parathion 1605	Content $\geq$ 50%	1-kg glass jar, in packing box	12000	13810
salithion	Content $\geq$ 40%	1-kg glass jar, in wood or plastic foam box	13300	15290

### Prices of Farm Chemicals in Shanghai (Partial List)

(Unit: yuan/ton)

Product	Specifications	Planned Factory Price	Planned Retail Price		Outside Plan	
			Factory Price	Retail Price	Factory Price	Retail Price
Dipterex	90% crystals	8,700	10,100	11,300	13,200	
DDVP	80% emulsion	9,500	11,100	12,400	14,400	
Rogor	40% emulsion	8,900	10,100	11,600	13,100	
Methamidophos	50% emulsion	9,900	11,200	12,900	14,600	
sha mie jun zhi [3010 3319 5497 7927]	20% emulsion	43,000	49,700	50,000	57,800	
edinphensoph	20% powder	22,000	25,300	22,000	25,300	
Bavistin	40%, 50% powder	16,000	18,200	19,800	22,500	
Nitrofen	25% powder	5,350	6,230	6,900	8,030	
Piperalin	20% emulsion	22,000	25,100	25,000	28,500	
"920" powder	850,000 units/gm	1,170	1,350			
"920" emulsion	40,000 units/ml	800	930			
Acephate	30% emulsion	11,000	12,200	14,000	15,500	
Kitazin P	50% emulsion	7,800	8,890	10,100	11,500	
Chlortoluron	25% wettable powder	12,700	14,500	16,500	18,800	
MIPC	2% powder	860	1,180	1,110	1,520	

Note: Units of calculation: for sha mie jun zhi, ml; for "920" powder, kg; and for "920" emulsion, kg.

### Prices of Film for Agricultural Use

#### Sichuan Province

1. The factory price for agricultural film is set at 5,600 yuan per ton; retail price, at 6,400 yuan per ton.
2. The factory price for groundcover film is set at 5,700 yuan per ton; retail price, at 6,660 yuan per ton.
3. The factory price for fine thin film is set at 5,800 yuan per ton; retail price, at 6,660 yuan.

The films for agriculture use described above are priced according to packaging in rolls or wrappers. No additional fees or deposits should be accepted.

#### Shandong Province

1. Pricing of plastic films for agricultural use follow overall averages of factory and retail pricing for a range of products: agricultural film (less than 3.5 meters wide), groundcover film, fine thin film, and tent film (over 3.5 meters wide), a total of four product types.

2. Based on balanced conditions surrounding plans for raw materials by the provincial authorities, the factory and retail prices per ton, of plastic film for agricultural use, are set as follows: for agricultural film, 8,100 yuan and 8,990 yuan, respectively; for tent film, 8,200 yuan and 9,100 yuan, respectively; for groundcover film, 8,300 yuan and 9,210 yuan, respectively; and for fine thin film, 8,600 yuan and 9,550 yuan, respectively.

3. Prices of commodity products purchased from outside the province by special operation units on all levels, and those products in storage this year, regardless of cost, will be set according to overall specifications laid out by the provincial authorities.

### Prices for Agricultural Polyethylene Thin Film in Shanghai

Product	Specifications	Factory Price	(Unit: yuan/ton)		Notes
			Retail Price		
Agricultural film	Thickness 0.08 mm, folded width 1.1-2 m	4,300	6,830 composite price		Shanghai Petroleum Chemicals, Main Plant, in rolls
Agricultural film	Thickness 0.08 mm, folded width 1.1-2 m	7,800	6,830 composite price		Enterprise under 2d Bureau of Light Industry, in rolls
Tent film	Thickness 0.1 mm, folded width 2-4 m	4,300	6,830 composite price		Shanghai Petroleum Chemicals, Main Plant, in rolls
Tent film	Thickness 0.1 mm, folded width 2-4 m	8,100	6,830 composite price		Enterprise under 2d Bureau of Light Industry, in rolls
Groundcover film	Thickness 0.015 mm, folded width 1 m	4,990	8,240 composite price		Shanghai Petroleum Chemicals, Main Plant, in rolls
Groundcover film	Thickness 0.015 mm, folded width 1 m	8,200	8,240 composite price		Enterprise under 2d Bureau of Light Industry, in rolls
Ultrathin groundcover film	Thickness 0.008 mm, folded width 1 m	8,700	9,780 composite price		Enterprise under 2d Bureau of Light Industry, in rolls

#### Hebei Province

No differentiation is made in the pricing of agricultural-use polyethylene film produced by various plastic

processing plants in the province and that purchased by enterprises from outside the province. Unified overall factory prices and retail prices will be set by the proper provincial authorities (see table for details).

Prices for Agricultural Film in Hebei Province

Product	Specifications	(Unit: yuan/ton)	
		Factory Price	Retail Price
Agricultural film	Thickness	< 1.5 m	7,230
	0.06 + or - 0.015 mm		
	0.08 + or - 0.02 mm		
	0.10 + or - 0.02 mm		
Agricultural film	0.12 + or - 0.025 mm	1.5 m	7,330
	0.06 + or - 0.015 mm		
	0.08 + or - 0.02 mm		
	0.10 + or - 0.02 mm		
Groundcover film	0.12 + or - 0.025 mm	No difference	7,430
	0.013-0.014 + or - 0.003 mm		
Very thin film	Under 0.008 mm	No difference	7,730

Note: Quoted prices include packaging costs.

Hubei Province

Factory prices for agricultural-use film in Hubei Province are based on a monopoly-set overall factory price, but overall retail prices are set by the county (town) acting as a unit.

1. Factory prices: Monopoly-set overall factory prices for the whole province are based on the principle of conserving capital, with a slight profit (that is, retail profit not to exceed 5 percent), in two phases: (1) For those goods shipped for retail sale between September and December 1988, the province originally set the parity price of native raw materials, but to balance prices and incoming purchases, an overall factory price is set this year for parity-priced raw materials and imported raw materials that has not been priced. (2) In 1989, pricing is not set for the parity-priced raw materials portion of agriculture film, only set for an overall factory price (see table for details).

Raw materials for agriculture film governed by monopoly-set overall factory pricing include parity-priced native raw materials (including some materials in the plan valued higher than parity price), light industrial imports, provincial parity-priced foreign exchange imports, and raw materials regulated by foreign exchange in 1988.

2. Retail Prices: For that part of agricultural film purchased and retained by the provincial agricultural capital company, the principle of a weighted average import price to which are added reasonable transportation and miscellaneous fees and authorized coverage of overall differences is followed, in order to arrive at an overall distribution price. For localities where the county (town) is the base unit, the principle of the weighted average import price to which are added reasonable transportation and miscellaneous costs and an overall difference of 6 percent (county and commune base considered together) is followed, and an overall retail price is set by the local commodity pricing offices.

Overall Prices for Agricultural Thin Film in Hubei Province

Product	(Unit: yuan/ton)	
	Overall Factory Price	
	Sep-Dec 88	1989
Polyvinylchloride thin film, pressure drawn		4,800
Polyvinylchloride thin film, blow molded		5,200
Polyethylene thin film, blow molded	6800	5,500
Polyethylene groundcover film, blow molded	7,050	5,750
Very thin polyethylene film, blow molded	7,300	6,000

Note: Prices quoted include packaging.

Increasing Agricultural Inputs, Readjusting Farm Prices

40060629a Beijing JINRONG SHIBAO in Chinese  
3 Jun 89 p 1

[Article by Zuo Yaosheng 1563 3087 3932 of the Center for Economic Development of the State Council: "Increases in Agricultural Investments in Relation to Price Adjustments for Farm Products"]

[Text] Synopsis: With the present background of strained state finances and retrenchments in bank credits, how can agricultural input be effectively increased, and how can we give impulse to the sluggish development of agriculture? Zuo Yaosheng of the Center for Economic Development of the State Council proposes stabilization of the grain contract prices, raising allocation prices, and keeping market prices down.

At the 1988 All-China Agricultural Work Symposium it was pointed out: Agricultural development depends on: first, policy; second, science; and third, investments. Whatever the dependence may be, it always boils down to capital funds. Adjustment of prices is an important

measure of raising capital. However, price increases are not only restricted by the financial resources of the central government and the local governments, but also by what the citizens are able to bear, and furthermore, are restrained by the need to regulate the currency inflation, which is presently an important macroeconomic objective. This makes it necessary to study what sectors raising farm product prices would bring most macroeconomic benefits, and where the investment of capital would be of greatest effectiveness for the benefit of agriculture, in particular for increased grain production.

In view of the fact that the very substantial increases in farm product procurement prices in 1979 had very effectively encouraged agricultural production, many comrades suggest that we again raise procurement prices substantially, especially the prices for contractual quotas of grain procurements. However, based on the present conditions of China's agricultural production, and the need to regulate currency inflation, it is presently our opinion that it is necessary to stabilize prices for contractual quotas of farm products, to raise allocation prices, and to keep market prices down.

#### **I. Stabilization of Prices for Contractual Quotas of Procurements**

The main reasons put forth by those comrades who suggest substantially increasing prices for contractual quotas of farm procurements are: the extent to which contractual procurement prices for farm products have so far been raised is far below the extent to which prices for agricultural means of production and retail prices for agriculturally required industrial articles have gone up. There is still the scissors differential between industrial and agricultural products. The development of township industries in the rural areas has affected comparable profits from farming, especially grain production, causing a serious decline. The differential between contractual procurement prices and market prices is constantly widening, which renders procurement work increasingly difficult. The conclusion is that the production enthusiasm of the peasants is seriously declining, investments in agriculture are decreasing; consequently agricultural production, in particular its main component, grain production, is in a state of stagnation.

There is no doubt that the above-mentioned conditions exist, but the conclusion must be subjected to further exploration:

A. There are now roughly three ways in which farm products are marketed in China: 1) Procurements by the state at state monopoly fixed prices, i.e., for cotton; 2) Free sales in the market by the peasants, i.e., aquatic products, fruit, and vegetables; 3) Partly purchased by the state at state-fixed prices and partly sold freely in the market by the peasants, i.e., in the case of grain. Over 75 percent of China's cultivated land is planted to grain crops, and grain prices are the principal factor that affects peasant income and the peasant's production enthusiasm. Due to recent

decontrols, farm prices rose rapidly, and so did prices for agricultural means of production, so that the contractual quota procurement prices for the small amounts to be turned over to the state presented a predicament. But the inclination or disinclination of the peasants to grow grain depended not only on the price level of contractual quota procurements, but more importantly on the overall income from the sale of grain, meaning the combined profits from contractual quota procurements, sales at negotiated prices, and at market prices. Actually, it was precisely the rapid rise of prices for that part of the grain for which prices had been decontrolled in recent years that drove up the overall level of grain purchasing prices. Compared with 1984, the overall level of China's purchase prices for agricultural and sideline products has risen 59.2 percent, and among these prices, grain prices have risen 38.5 percent, while prices for agricultural means of production have risen by 31.6 percent during the same period. Obviously, the peasants were still benefiting from the price changes, and other statistical indices failed to show a widening trend in the scissors differential between industrial and agricultural products.

B. Since the reform in rural areas, and following the rapid development of township enterprises and diversification of operations, the peasants have gained a broader latitude for the free choice of pursuits, and comparative profits are gradually becoming the important directional guides for the flow of agricultural capital and labor, and for the way land is being used. Without doubt, profits from nonagricultural pursuits are higher than profits from agriculture. In view of this comparison, the attraction for any producer to go in for nonagricultural production, rather than to continue agricultural production, is very great. However, since there is much agricultural surplus labor in China, the differential in comparative profits may possibly lead to an outflow of agricultural labor and capital, but will not lead to a decline in agricultural production. Because, as far as most peasants, who are unable to leave the soil to go elsewhere, are concerned, as long as agricultural inputs are increased and a yield can be gained that is larger than the input, they will not remove large amounts of capital and labor from agriculture.

C. The differential between contractual quota procurement prices and market prices has become increasingly wider. This problem became most conspicuous, quite unexpectedly, in the case of grain, at the time when China adopted the double-track system for the prices of some agricultural products. In 1988, China's prices for contractual quotas of grain procurement had only gone up 12 percent compared with 1984, while market prices had already risen 52 percent, so that the price parity had risen from a 1:1.34 ratio to a 1:1.82 ratio. The rapid widening of the differential between contractual procurement prices and market prices caused unprecedented difficulties in state grain procurements. In the long run, efforts to solve this problem of price differential, apart from measures to restrain the rapid rise of market prices, will be unable to avoid a substantial increase in the prices for contractual quotas of grain procurements. But, at the moment, conditions are not favorable for a solution of the problem.

First, with the rapid rise in market prices, and without any trend of price declines in sight, it is of considerable difficulty to raise contractual procurement prices to the extent of catching up with market prices.

Second, due to the different proportion of the various agricultural products subject to contractual quota procurements, there are also great differences in magnitudes of increases in the general level of procurement prices. Among these, price increases for grain are particularly rapid among farm price increases. Raising prices for contractual quotas of grain procurement is bound to widen the price parity differential in relation to other important agricultural products. This will compel us to raise prices for other agricultural products correspondingly within the next 1 or 2 years, and consequently will drive up prices for the whole range of agricultural products.

Third, according to China's experiences in recent years with the double-track pricing system, whenever the state raises its fixed prices under conditions of currency inflation, market prices will rise one after another. After grain procurement and marketing prices were raised in Guangdong last year, market grain prices went up in same measure with the amount of the increases far exceeding the officially fixed prices. Due to the rapid rise in grain market prices, many regions saw a growing trend in the decline of production in animal husbandry. If the grain price would rise further, it is quite possible that from the second half of this year and the entire year of 1990, prices for nonstaple foodstuffs cannot be held stable, which will cause increases in the government's nonstaple foodstuff allowances paid to the urban population. Very obviously, any substantial increase in the prices for contractual quotas of grain procurements would exceed what public finance could bear.

Fourth, the fact that low contractual procurement prices coexist with high market prices, also the fact that market prices have been rising very rapidly, has not had any adverse effect on the enthusiasm of the peasants for growing grain; but, rather their enthusiasm to deliver to the state and sell the contractual quotas of grain has been affected.

D. Limited soil, a large labor force, and the institution of the output-related system of contract responsibilities have reduced arable land to an average of about 8 mu per household, the land being split up into small single lots. This has led to a state of affairs where the peasants will concentrate their productive input only on chemical fertilizer, pesticides, agricultural plastic film, and small farm machinery. Following the increase in the prices of agricultural products, peasant income has risen, and there has been a dramatic inflation in the demand for the above-mentioned agricultural means of production. Although production of agricultural means of production has developed rapidly in recent years, it cannot yet satisfy all the demand, and this state of affairs will change little in the near future. This determined that much of the newly increased income of the peasants, following the increases

in the contractual quota procurement prices, cannot be spent on productive agricultural investments, but will rather flow into the consumer goods market, which is already suffering from shortages of goods under the impact of high consumption demand, or the money will be diverted to investments in township enterprises.

Based on the above consideration, we believe that any present increase in contractual quota procurement prices cannot stimulate increased production of grain and other important agricultural products, but may quite possibly increase the difficulties in regulating currency inflation. It is therefore necessary to achieve a stabilization of the contractual quota procurement prices for grain.

## II. Substantial Increases in Allocation Prices

Statistical data reveal that increases in the overall level of prices for agricultural procurements have been higher in recent years than the increases in prices of agricultural means of production, even though once, in 1988, increases in the overall level of grain prices have been slightly lower than the price increases for agricultural means of production. These statistics are far different from the feelings and impressions of the peasants. The reason for this result, apart from the fact that price quotations differ widely depending on the different products concerned, is mainly the large decline in the benefits that the peasant reap from their investments in the soil. After deductions caused by the commodity price factor, China's peasant investments in their fields since 1984 have been going up at the average rate of over 8.5 percent per year. This rate of increase is rare in the world. However, peasant input did not have a corresponding increase of production output. Production of the main agricultural products, grain, cotton, and edible oils, has been stagnating since 1984. Taking grain as an example, according to investigations by the relevant department, use of chemical fertilizer per mu of land from 1984 to 1987 increased at an annual rate of 2.17 kilos, about 8 percent, but yield per mu did not increase at all during the same period of time, resulting in a large increase in costs per unit of production. Obviously, the decline in the input-output ratio is the major factor for the rise in cost of production of farm products. Some have attributed the decline in input effectiveness of agricultural capital simply to a law of progressive decline of reward. If we do that, the most conspicuous manifestation would have to be in the high-yield regions over a number of years. But the actual conditions are not at all like that. It is our opinion that the problem arises from the irrational input structure of agricultural production.

The output-related system of contract responsibilities for each household had powerfully stimulated production zeal and enthusiasm for agricultural input of the peasants, but at the same time brought about the problem of a parcelation of land. The limited amount of land and its parceling in small allotments have determined that peasant input into their fields would be only concentrated on



the short-term investments in chemical fertilizer, pesticides, agricultural plastic film, and small farm machinery. In this way, capital construction projects concerning fields under cultivation, water conservancy projects, education in the villages, etc., items which before introduction of the system of fixing of farm output quotas for each household were taken care of by commune investments, lost their source of financial funding. The effectiveness of original installations greatly diminished because of natural wear and tear and man-caused destructions, while the governments at all levels did not essentially increase their investments in these respects. This caused a substantial decline in the capability of Chinese agriculture to withstand natural calamities. The rate of natural disasters increased from 43 percent in 1978 to 49 percent in 1987. The higher rate of disasters cancelled out all benefits from the increased short-range input by the peasants, and caused a decline in the output ratio of their short-term input.

Under the present system of China's agricultural production, the problem of fundamental input into agriculture cannot basically be solved without involvement of the government or of government organizations. The stagnation in China's farm production, of which grain is the main product, during recent years is fundamentally not a problem of production enthusiasm on the part of the peasants, but rather a problem of enthusiasm for agricultural production on the part of the local governments.

Under the current system of public finance, the problem that affects the enthusiasm of local governments for agricultural production is that profits are low from capital invested in agricultural production, especially in grain production. A certain amount spent on agricultural production (including grain production) is not nearly as effective in improving local financial resources as when expended on local industries. Frequently, a province or county becomes poorer as it ships out more commodity grain from its territory, and this acts as a restraint on local government's investments in production. Obviously, in order to increase basic input in agriculture, it is necessary: one, to stimulate enthusiasm of the local authorities; and two, to enhance the financial resources of districts with much production of commercial grain.

The direct beneficiaries of increases in the allocation prices for grain and other agricultural products are the finance organs of the districts that ship out agricultural products from their territories. This is of major significance if the above-mentioned two objectives are to be attained. As increases in sales prices are restricted, raising the allotment prices amounts to an investment of the regional finance organ of the district that ships out the commodity in the production of the district that takes in the commodity. It directly increases the financial burden of the district that takes in the commodity, compelling it to choose whether to produce the commodity itself or have it shipped in, which indirectly encourages the district that produces the commodity to increase production, if suitable conditions exist.

At the time of raising allotment prices for agricultural products, the state could also prescribe that the income from the price increases be used to establish an agricultural development fund, which would then ensure that the income from the said price increases will mainly be used for capital investments in agriculture. The various localities may, depending on specific conditions, use part of the fund to supplement the increased expenditure for bringing in agricultural products, and may raise their own local procurement prices for agricultural products.

Increases of capital investments in agriculture can raise the benefits from short-term peasant investments, and as a consequence the peasants will get the benefit from the possibility of lowering their costs per unit yield. Due to the fact that raising allotment prices cannot basically have any adverse impact on demand for consumer goods and for agricultural means of production, much less impact than the demanded increase of currency, it is, therefore, more beneficial for regulating the economic environment than raising contractual quota procurement prices.

### III. Keeping Market Prices Down

The core of all farm product prices are the prices for grain. Excessive rise in the market prices for grain exerts not only upward pressure on the prices for edible oils, cotton, ramie, tobacco leaf, and sugar, but also tremendous pressure on prices for sideline products, as it also would make it difficult to accomplish the work of contractual procurements of grain. At present, grain prices have increased tremendously and are spreading a dark cloud over chances to achieve the anticipated objective of "keeping this year's commodity price increases markedly below the increases of 1988." We must adopt effective measures to keep commodity prices down.

If we propose to stabilize contractual procurement prices, to raise allotment prices, and to hold down market prices, it does not mean that we want to maintain low prices for farm products, especially for grain, for a very extended period of time. We merely want to say that national state finances cannot possibly support simultaneous adjustment of contractual procurement prices, allotment prices, and perhaps even sales prices. It would be more beneficial for macroeconomic adjustment to first raise allotment prices, rather than raising contractual procurement prices. In the long run, prices for farm products will still have to be raised.

**'Misuse' of Capital by Grain Enterprises**  
40060629b Beijing JINRONG SHIBAO in Chinese  
16 May 89 p 3

[Article by reporter Zhang Zhenghua 1728 2973 5478 and correspondent Zhang Hongxing 1728 4767 2502: "The Serious Phenomenon of Grain Enterprises Misusing Circulating Capital Increases Money Supply Pressure on Banks—Somewhat Over 8,000 Grain Enterprises in 11 Provinces and Municipalities Have Exacted Over 17.5 Billion Yuan"]

[Text] Zhang Zhenghua and Zhang Hongxing report that according to a survey carried out and statistics recently

prepared by the Agricultural and Commercial Credit Department of the Agricultural Bank head office concerning 8,600 grain enterprises in 11 provinces and municipalities, including Jiangxi and Liaoning, the capital structure of China's grain enterprises is irrational to the extreme. The way they make excessive demands on and misuse capital funds is an extremely serious matter, which imposes increasing pressure on the banks to supply more money.

Statistics clearly reveal that up to the end of March 1989, the 8,600 grain enterprises investigated were holding down for their own purposes an amount of 17.554 billion yuan in circulating capital. This sum includes product funds of 10.46 billion yuan, and settlement funds of 6.936 billion yuan. Of the 12.93 billion yuan borrowed from banks, the product fund accounts for 80.89 percent, and 593 million yuan of circulating funds in the hands of the enterprises were diverted to other uses. In the settlement funds of the enterprises, various loans receivable amounted to 3.319 billion yuan, and various funds to be allocated by public finance but not yet allocated amounted to 1.118 billion yuan. There were 4,287 enterprises that had incurred business losses, and these losses entailed retention of 244.1 million yuan of bank loans, thus held in abeyance.

After analyzing the irrational structure of grain enterprise capital funds, some specialists have pointed out that in recent years China's grain enterprises have been beset with many difficulties, the major ones being:

*The serious extent to which funds have been held on to and misused.* It was learned that 1,445 grain enterprises in Jiangxi Province have thus held on to and misused for other purposes 86.97 million yuan of bank loans. According to still incomplete statistics concerning Yongxiu, Xiajiang, Linchuan, Wanzai, and Nanchang, these five counties overspent special purpose funds to the amount of 3,375,000 yuan, overspent welfare funds to the amount of 1,042,000 yuan, and granted loans to staff and workers to the amount of 1.7 million yuan. In the one county of Xiajiang, personnel of the grain enterprises had borrowed as much as an average of 1,000 yuan per person.

*Obstructed channels of settlement, serious delays in payments for goods.* Up to March of this year, grain enterprises with accounts with the agricultural banks of Jiangxi Province had delayed repayment of 150 million yuan of bank loans because of delays in payments for shipment and sale of grain and edible oil.

*The serious extent to which funds of public finance nature are being held back.* In 1983, funds to be allocated but not yet allocated by public finance amounted to only 16 million yuan, but by the end of 1988 they had increased to 280 million—an increase of 4.6 percent.

Insufficient tangible security for bank loans. In recent years, the capital held down by grain enterprises increased yearly, while the ratio of inventories to circulating capital declined yearly. An investigation in Hubei Province revealed that grain enterprises held 2.106 billion yuan of

product funds, which amounted to only 65.56 percent of their bank loans. Honghu City in that province had 60,470,000 yuan bank loans at the end of March of this year, but its enterprises had an inventory worth only 26,010,000 yuan.

Grain enterprises have insufficient funds of their own. As revealed by the survey of 11 provinces and municipalities, the grain enterprises had 1.308 billion yuan of funds of their own, part of which are reserve funds which cannot be part of the turnover of working capital. The capital at the disposal of the enterprises, even including the quota of circulating assets needed for their own business operations, is hardly sufficient. Since 1983, when enterprise circulating assets were placed under unified control of the banks, it was already prescribed that the enterprises may replenish the circulating assets at their disposal by retention of production development funds. Due to the fact that most losses in the business operations of the grain enterprises may be ascribed to government policy, these replenishments by retentions are merely nominal and without real substance, rendering unified control into an all-embracing arrangement. In recent years, the grain enterprises essentially did not increase their circulating assets, apart from the fact that part of their circulating assets increased, due to price adjustments for goods held in storage.

#### **Output of Dairy Goods Declines**

OW2307145289 Beijing XINHUA in English  
1338 GMT 23 Jul 89

[Text] Beijing, July 23 (XINHUA)—A growing shortage of fresh milk brought about a substantial decline in the supply of dairy products in the first half of this year in the country, CHINA DAILY reported today.

According to figures released by the State Statistical Bureau, total dairy products in the first six months of this year dropped by 7.1 percent over the same period of last year, totaling 129,976 tons.

A survey of about 40 major dairy foods factories under the ministry of Light Industry also revealed an average production decline of 4.3 percent during the first five months of this year.

The slide in production started last year and is worsening, according to Song Kungan, an official in charge of dairy foods production at the Department of Food Industry under the ministry.

The total output of dairy products last year was 290,000 tons, which represented an eight percent increase over the previous year.

However, the rate was much lower than the average growth rate of 20 percent that the industry achieved since 1978.

The survey also showed that for the first time in the last 10 years, a production decline occurred in as many as 11

provinces and autonomous regions, while only 18 areas maintained their production rate.

Among them, Guangdong and Zhejiang Provinces showed decreases of 62 and 11 percent, respectively.

The main reason for the production slide was the shortage of fresh milk, and that problem has worsened this year, Song said.

Following factors have contributed to the milk shortage, according to Song.

Skyrocketing fodder prices in recent years have driven up the cost of raising cows, and local farmers, who saw shrinking profits in their previously lucrative business, began to shift to other businesses.

For the first three months of this year the number of milk cows in Heilongjiang Province decreased by 30,000.

There was a lack of funds for factories to purchase fresh milk, for farmers to buy fodder and for retailers of dairy goods to pay the factories.

The money shortage resulted from the tightening of credit introduced by the government last year to reduce inflation.

Individual cow breeders have been unable to cope with unfavorable conditions in their business.

**Fertilizer, Pesticide Sales, Procurement**  
40060662e Beijing JINGJI CANKAO in Chinese  
10 Jul 89 p 2

[Summary] From January to May, chemical fertilizer sales totaled 41,980,000 tons, a 2.7-percent increase over the same period in 1988; domestically produced chemical fertilizer procurement totaled 29,140,000 tons, a 3.6-percent decrease; and the amount of fertilizer in stock is 20,060,000 tons, a 22.5-percent increase. Pesticide sales totaled 222,000 tons, a 9.0-percent decrease; domestically produced pesticide procurement was 305,000 tons, a 26.0-percent increase; and the amount of pesticide in stock is 559,000 tons, a 4.3-percent increase. Plastic film sales totaled 216,000 tons, a 2.7-percent decrease; plastic film procurement totaled 245,000 tons, a 7-percent increase; and the amount of plastic film in stock is 151,000 tons, a 79.8-percent increase.

**Silkworm Cocoon Procurement Rises**  
40060662d Beijing JINGJI CANKAO in Chinese  
2 Jul 89 p 2

[Summary] As of 2 July, Zhejiang Province had procured 800,000 dan of silkworm cocoons, a 14-percent increase over the same period in 1988; Jiangsu Province procured 870,000 dan, a 30-percent increase; Sichuan Province (excluding Chongqing City) procured 950,000 dan, a 13-percent increase; Anhui Province procured 140,000

dan, a 27-percent increase; and Shandong Province procured 80,000 dan, a 33-percent increase. On average, procurement prices for each dan were 550 yuan in Zhejiang, 550 to 570 yuan in Jiangsu, 550 yuan in Shandong, 540 yuan in Anhui, and 475 yuan in Sichuan.

**Guizhou Reaps 'Good Summer Grain Harvest'**  
OW2207105489 Beijing XINHUA in English  
0600 GMT 20 Jul 89

[Text] Guiyang, July 20 (XINHUA)—Guizhou Province, which is often deficient in grain, reports a good summer grain harvest despite adverse weather early this year.

This poor province in southwest China reaped more than one million tons of wheat, sweet potato, and other crops, up eight percent over the same period last year.

A provincial official said most of the province's 87 counties and cities were hit by storms, hail, and torrential rains early this year.

However, the provincial government has attached importance to farming and is allocating more funds and materials for agricultural production, popularizing agrotechniques in rural areas and expanding sowing areas to ensure the summer grain harvest.

**Heilongjiang Farmland Affected by Drought**  
SK0807025589 Harbin HEILONGJIANG RIBAO in Chinese  
6 Jun 89 p 1

[Excerpt] As of 1 June, a total of 41 million mu of farmland in the province has been hit by drought, accounting for 36 percent of the total sown acreage. Of this, 19.37 million mu have been hit with serious drought, accounting for 47.3 percent of the total drought-afflicted farmland.

In Qiqihar City, which has been affected by serious drought, the drought-affected acreage has reached 8.784 million mu, accounting for 39 percent of the total sown acreage. In Suihua Prefecture, the amount of drought-affected farmland has reached 8.4 million mu, accounting for 34 percent of the total sown acreage. The total drought-afflicted areas of farms has reached 9.32 million mu, accounting for 38 percent of the total sown acreage. [passage omitted]

**Livestock Increases in Inner Mongolia**  
OW2207224289 Beijing XINHUA in English  
1108 GMT 21 Jul 89

[Text] Hohhot, July 21 (XINHUA)—Livestock in the Inner Mongolia, one of the leading animal husbandry center in China, reached 47.5 million head by the end of June, representing a 13.1 percent increase over the same period last year, and 5.32 million more than the previous record in 1982, according to local officials.

In the first half of this year, animal husbandry in the autonomous region has three characteristics: high survival rate of young livestock, sharp increase of total livestock, and low mortality.

Local officials reported that over 13.7 million young animals in the region have survived, 2.1 million more than the same period last year.

The total number of livestock increased by 12.4 million head in the first six months, 2.25 million more than the whole increase of 1988.

As only 1.3 million animals died in the first half of this year, the mortality rate was 3.1 percent, the lowest since 1963, according to local officials.

### Scholars Voice Concern About Social, Cultural Climate

40050427 Beijing QUNYAN [POPULAR TRIBUNE] in Chinese No 3, 7 Mar 89 pp 4-10

[Article by Ye Zhishan 0673 4460 3790: "Cultural Crisis Part of Broader Social Malaise"]

[Text] Editor's note: On 30 December 1988 the editorial department of QUNYAN organized a seminar titled "The Cultural Crisis and the Way Out." The seminar was presided over by Professor Tao Dayong [7118 1129 6978], vice chairman of the central committee of the Chinese Democratic Alliance, and attended by the following comrades (in order of number of strokes in last names):

Liu Zaifu [0491 0375 1788], director and researcher, Literature Institute, Chinese Academy of Social Sciences [CASS]; Li Zehou [2621 3419 0624], researcher, Philosophy Institute, CASS; Ren Jiyu [0117 4949 1937], librarian, Beijing University; Su Wei [5685 3555], research associate, Literature Institute, CASS; He Xin [0149 2450], deputy researcher, Literature Institute, CASS; Jin Kemu [6855 0344 2606], professor, Beijing University; Ji Xianlin [1323 5029 2651], professor, Beijing University; Zhong Jingwen [6988 2417 2429], professor, Beijing Normal University; Tang Tao [0781 1718], researcher, Literature Institute, CASS

**Tao Dayong:** At a meeting convened by the editorial department of QUNYAN not long ago, people of insight from the cultural and educational communities discussed the various negative phenomena in the cultural arena in China today. Everybody was deeply worried. Without cultural revival and flourishing, we cannot even begin to talk about socialist modernization in China. How can we find a way out? This question concerns the whole nation, from top to bottom. You have been invited here today to express your opinions on this and related issues. You can even discuss the appropriateness of the nomenclature, "cultural crisis." Among the comrades gathered here today, the oldest is 86, the youngest, 35. Two are in the prime of their lives. We can say it is a gathering of the old, the middle-aged, and the young. Please express your ideas freely.

### Culture and Crisis

**Ren Jiyu:** Culture embraces so much. What we eat, drink, and wear is culture. So are scientific thinking, philosophy, and world outlook. What we eat, drink, and wear is related to folk customs. So-called crisis does not apply there. Not every nation has a culture of a higher level; only highly civilized nations do. When we talk about crisis, we refer to the culture of a higher level.

**Zhong Jingwen:** To me, "culture" can be defined either broadly or narrowly. Defined broadly, it refers to all the things that a group of people create, enjoy, and pass on to future generations in order to survive and develop in the course of social life, including important activities like

politics and economics. Defined narrowly, it refers to the superstructure and things ideological, like education, ethics, literature, art, science, religion, and folk customs. It is the latter we are discussing today.

**Jin Kemu:** I think culture, defined broadly, is not in a crisis. As long as there is human society, there is culture. A primitive culture is culture. Culture is not going to die out. So it is not in a crisis as such. It is only changing. Culture actually changes all the time, sometimes slowly, sometimes quickly, sometimes slightly, sometimes radically. In the course of change, part of it will decline and even disappear, while something new may appear and become dominant. If we look at the part that is declining, it seems there is a crisis. But if you look at other parts, you will say, "What crisis?" So our concern is to identify the part of culture that is in a state of crisis. Culture is made up of things old and new. What is new? What is old? This is an important issue. In the days of "destroying the four old's and establishing the four new's," one of the four "new's" was loyalty. It turned out to be a piece of antiquity, 2,000 years old, as ancient as burning books and burying scholars alive. The old poses as new and we destroy the new as if it were old. We must distinguish the old from the new, but that is difficult. It had been 70 years since the May 4th Movement. At the time, we sought to destroy "loyalty, filial piety, chastity, and righteousness." How much of that is still with us today? Filial piety has become "the son leading the father." After much hoopla, I am afraid we have achieved the opposite result as far as "loyalty" is concerned. Nowadays women are not expected to commit suicide when their husbands die, but now and then we still hear people say that widows should not remarry. The "code of brotherhood" is not righteousness. As for people "taking up cudgels for a just cause" and "replacing profit with righteousness," they are few and far between. In this respect, there is indeed a cultural crisis. But what are we to do? Establish new "loyalty, filial piety, chastity, and righteousness?" Then there is the distinction between highbrow culture and lowbrow culture. Now that we have discos and beauty pageants, people are worried that swimming in the nude and "streaking" are just around the corner. Why is it that foreign highbrow culture, symphonic music, and ballet do not flourish here, while foreign lowbrow culture has come uninvited? This is not a problem unique to Chinese culture. All over the world, a war is going on between highbrow culture and lowbrow culture. In Japan, old culture coexists with new culture, highbrow culture coexists with lowbrow culture. This was true when Japan was poor and is also true now, when the country has gotten rich. In India, there is also the coexistence of old and new culture, highbrow and lowbrow culture. But the country has had a hard time eradicating poverty. Why? Among the various cultures, which is good? Which is bad? Hard to say.

**Su Wei:** Culture can be seen as society's collection of symbols, code words, and value systems established through usage. When a "cultural crisis" appears, it

means that the existing traditional value system is on the verge of collapse, while new standards have not yet been established. This is a historical cultural phenomenon that may appear in any transitional period when the new replaces the old. In a certain sense, the "cultural crisis" today suggests the end of an era.

At its simplest, the so-called "end of the age of ideology" means that ideology is no longer being used as the yardstick with which to evaluate a society. The new yardsticks are ones that measure the material and spiritual development of society as a whole, such as economic growth indicators, living standards, personal and mental freedom, tranquillity, and other nonideological, public-interest criteria. Take the idea of "one nation, two systems" proposed by Deng Xiaoping in 1983. Whatever the political or "united-front" significance of this proposition, described by Mrs Thatcher as "imaginative," at least it shows that the leader of the ruling party has begun to rise above ideological factors and think about the interests, future, and destiny of the entire nation. This is epochal progress. That "one nation, two systems" was put forward at all says that times have changed. (Li Zehou interposed, "You are looking at 'one nation, two systems' from a new angle. As I see it, the 'end of the age of ideology' also signals the arrival of the 'age of the diversification of ideology.'")

**He Xin:** I have a feeling that China today is like China 100 years ago, politically, economically, and culturally. Many of the problems we face now are the same problems confronting Chinese in the waning days of the Qing Dynasty, only at a new level.

Sometime back I published something in JINGJIXUE ZHOUBAO and MING PAO in Hong Kong, expressing my views on the current political, economic, and cultural situation. They were not very optimistic. Some called them "alarmist." But sounding a little "alarmist" in good times is not a totally bad thing. After all, one "should be prepared for danger in times of peace."

**Liu Zaifu:** It is debatable whether we can characterize the present cultural state as a "crisis." At least it is in a "plight." In the past I was given to talking about "crisis." Now that I have grown a little older, a little more mature, I do hope that things can be sorted out calmly.

What should be affirmed is that a good deal of progress was made in our thinking and culture in the past decade. Mr Nie Gannu [5119 4802 1722] and I were good friends despite the difference in our ages. A couple of years before he passed away, he said to me many times, "All that we have achieved today is hope." He unequivocally affirmed the progress of history. One thing, however, worried him. He said, "China will have 250 million illiterates by the end of the century. If they become blind followers like the Boxers, their destructiveness will be terrifying. Should that come to pass, there will really be no hope at all." We can therefore see that the cultural

crisis is first and foremost a crisis of "no culture." In the absence of culture, even a good policy will degenerate instantly. This invisible force is indeed frightening.

### Symptoms and Causes of Disease

**Zhong Jingwen:** After the 3d Plenary Session of the 11th CPC, the cultural community emerged from the desolation and bleakness of the Cultural Revolution, which lasted a decade, and created a lively, dazzling scene. But this is only one side of it. We should also see the negative side.

Owing to economic difficulties, our educational institutions have no choice but to resort to the extraordinary. To open up new revenue sources, schools are openly engaging in commercial activities, even selling diplomas and school places. Some teachers' hearts are not in teaching. Students are bored with learning. Many young people have nothing but disdain for knowledge and are tired of books. They quit school to go into business and brag about it.

For a variety of reasons, including high taxes and rising newsprint costs, publishers have refused to publish some worthy books. A story in RENMIN RIBAO a couple of days ago said that for 8 years publishers had been sitting on the manuscript of a collection of articles written by dozens of scholars to commemorate Gu Jiegang, the historian. This is only one example, but it does impose a heavy psychological burden on us.

In short, many distressing phenomena exist in the cultural sphere today. The disease is serious, but not incurable.

**Su Wei:** I have heard some shocking talk lately. Some of the best and brightest of our intellectuals have put forward a so-called "new authoritarianism" and "enlightened despotism." To put it bluntly, they want a "good emperor." As some people see it, society today is in a mess. A dictator, a new emperor, is needed to "clean up the mess." All the rules are being thrown out of the window. Spokesmen for intellectuals are pushing such ideas openly. This is a hot conversation topic, a direct outgrowth of the *River Elegy* fever. Some people complacently call it "reaching the same goal by different routes." The logic of the traditional "good emperor theory" is this: Obscurantism leads to the theory of having honest officials, which in turn gives rise to the good emperor. Today's "new emperor theory" goes like this: Elitism—new authoritarianism—good emperor. For Chinese intellectuals, this is the saddest way of "reaching the same goal by different routes."

I think there are two direct causes of the "cultural crisis" today. First, the Cultural Revolution has destroyed the original value system. Second, it has destroyed the reform and open policy that came later. The world is a huge body of water. China is a well. Ideology is a barrier, much like the walls of a well. If we put ourselves on the

boundless spiritual and material ocean of the world and mankind, then water in and outside the well will find its own level. When we say, "reform is irreversible," we are working on that assumption.

Because of our longstanding abnormal political life, what is habitual has become genetic. Chinese intellectuals have lost some of their mental ability to think about basic issues in earnest. So they blame today's problems on history, as if each and every one of China's current problems is a problem of the country's 5,000-year-old tradition, instead of examining our problems of the past 40 years rationally and calmly. I am young, so I have the courage to raise this point for discussion. I do not know if I will still have the guts to "face basic issues" so recklessly when I get older.

**He Xin:** The social crisis today is basically an economic crisis. In a certain sense, this crisis runs deeper than we realize. If things go seriously wrong in agriculture, many people will starve. This happened in the 1960's. But the social conditions and popular mentality of the 1960's were vastly different from those of today. Demoralization is a potential cause of unrest. Something strange is happening in China. As economic reformers, we are bold; as reformers of culture and thought, we are very timid. The Western democratic system of the past 300 years shows that no great turmoil would ensue if you let scholars express themselves to their hearts' content. Encouraging free expression and enlightening the citizenry actually promote social cultural development. These days I often wonder whether or not we have tried to move a little too hastily in some areas after smashing the gang of four. For more than a century, the Chinese have probably suffered most from "impatience." Such impatience is understandable, but we should also be on guard against it. When they run into some setback in reform, leading comrades look down from the top, convinced that that is where the problem lies. But we believe that the problem lies above and look up. Are some of the more important policies in recent years premature? Have they been formulated too hastily, without careful study and verification?

In ancient China, there was cabal politics. More recently, we had party politics. But what is fashionable these days is "guanji" or relationship politics. People get together around some prominent figures and form a network of relationships or guanji. What binds them together is interest. This happens in academic cultural circles as well as politics. China has been a victim of guanji politics throughout the past few decades. As I see it, whether there is a future for Chinese culture will depend on the extent to which its political elite and cultural elite can rise above such person-dependent networks and whether or not they can become mighty "loners," courageous enough to have their own independent opinions and be innovative.

**Li Zehou:** The crisis is not essentially cultural, but social. Apart from economic problems, we have social order problems and ecological problems, including water

shortages, pollution, the indiscriminate use of chemical fertilizers, declining soil fertility, and runaway population growth. We have a serious crisis on our hands right now and there is potential for future unrest.

Comrade Zaifu said that our cultural crisis is actually a crisis of no culture. I agree. As soon as we mention education and raising the wages of intellectuals, they come up with the excuse that there is no money. But why is there money to do lots of other things? For instance, hosting the Asian Games will certainly lose money. Still they pretend they can pull it off. We lost in some events in the last Olympics, which I think is a good thing, otherwise they would feel even more justified. We always like doing things that are long on style, short on substance. What sort of priority do the problems of education and intellectuals occupy on the minds of our leaders? I always wonder.

**Ren Jiyu:** Since the 19th century, China has been flooded with foreign culture. China's traditional culture, based on the small-scale peasant economy, came under attack as never before. Under the small-scale peasant economy, the family is the production and consumption unit. This kind of economy was mostly concerned with the immediate, ignoring the overall situation. It was a fragile economy that could not stand up to disasters, natural or manmade. People always hoped that a sagacious emperor or able minister would come to their rescue. Hence, it had no room for democratic consciousness. It emphasized direct experience and slighted indirect experience. Direct experience comes from personal experience; indirect experience comes from books. In society today there is a feeling that "studying is useless." Well, this feeling did not come about overnight, but has a long tradition. When people stress direct experience, book knowledge is bound to be belittled. The notion that "studying is useless" derived from the idea that "knowledge is useless."

China has a huge population, but it is woefully short of qualified personnel. What we lack is educated people. The cause of the problem is that we are not willing to spend the money to invest in culture and education. We do not mind spending, even wasting money to import modern equipment and machinery. But when it comes to training modern expertise and making intellectual investments, we hesitate and become tightfisted. This is the myopic characteristic of a small-scale peasant economy. Comrade Fei Xiaotong [6316 1321 0631] said that his family was poor when he was small, but his mother always first set aside money to pay tuition for the children before allocating money to meet other expenses. Some of our leaders are not as farsighted as this homemaker.

Money in hand, some people splurge on fixing ancestral graves, offering sacrifices to their ancestors, gambling, and throwing lavish wedding parties and funerals. Meanwhile, the number of illiterates keeps rising. Other problems, such as soil erosion, ecological destruction, environmental pollution, and population explosion, can all



be traced to ignorance and a low educational standard. That being the case, even if per capita income in some places goes up by so many yuan, this nation of ours will remain bogged down in semi-ignorance, dominated and enslaved. In effect we will have no freedom.

**Jin Kemu:** Chinese modernization has been limited to four areas—industry, agriculture, science and technology, and defense. Apparently they want China to catch up with the world in material civilization, but not spiritual civilization. They take the initiative to import technology, selectively and under certain conditions. But they are not launching cultural joint ventures. What we are doing now, the Qing Dynasty already did 100 years ago in its last days. What does a century of history prove? They want to modernize things, not man. How realistic is such an ideal?

#### Introspection and Finding a Way Out

**Su Wei:** Faced with the cultural crisis, what can Chinese intellectuals do? "Quit scholarship to go into business?" "Provide for and help oneself by engaging in production?" "Join a think tank?" All these, I am afraid, are not what the intellectual elite can do. I think the first order of business is soul-searching. For instance, we should ask ourselves what thoughts we came up with and what we did in the last 10 years. What mark have we left on history? We should confront basic issues one more time, rationally, amorally, unemotionally, and calmly. A "crisis" brings with it "new hope" and "new opportunity," provided you have the courage to face it squarely and make new choices.

To determine whether a society is democratic and progressive, whether a reform is mature and successful, and whether a community is mature and rational, an important criterion is people's courage to face basic issues, ranging from bread-and-butter issues that directly affect the interests of the man in the street to those related to the spiritual psychological framework of the nation. Are they up to confronting these issues squarely? This is one litmus test nobody can avoid.

Finally I want to stress one point. No matter how critical the basic issues facing the nation and culture, no matter how profound the crisis, I am a pacifist. I believe any attempt to use violence to solve China's problems in whatever name will not be productive.

**He Xin:** Politics in any society always tries to serve two purposes: social stability and social development. And the precondition for social development is social stability. The reform of recent years has gotten rid of all those social security mechanisms of the old system that had promoted social stability, dismissing them all as the "iron rice bowl." To me this is not necessarily the right thing to do. The evolving trend in modern capitalism is to increase social security measures, including social welfare. Our reform should keep the superiority of socialism while incorporating what is rational about capitalism.

Specifically, I propose the following: 1) To ensure social stability, we must impose strict economic controls. 2) Politically, we must introduce a practical and feasible form of democracy and the rule of law. 3) There should be more openness on the ideological and cultural fronts. Economic retrenchment should not mean more cultural control. History proves that an economic recession is not necessarily accompanied by a decline in culture and thought. A lively exchange of opinions may make it easier to find a new way out. As for intellectuals, I also have two suggestions. First, intellectuals should have a sense of responsibility. They must not only speak the truth regarding affairs of state, but also do so in a responsible manner. Given the present conditions, they must never make inflammatory remarks. Second, it is an act of instigation to encourage cultural and value nihilism. Intellectuals with a sense of responsibility should resist and be on guard against such actions.

**Zhong Jingwen:** There are two kinds of treatment. You can treat the symptoms of the disease or you can treat the disease itself. The former means you disinfect the wound or bring the temperature down with drugs. This is entirely necessary and is the responsibility of society as a whole, particularly intellectuals. Even more important and more effective, however, is treating the disease. To do so, we must first ascertain its underlying causes. Besides social climate, there is one other underlying cause for our ailing culture: national quality. Our national quality has negative attributes derived from history and alien culture. They are totally incompatible with the advanced civilization we are pursuing. Consequently, they must be thoroughly transformed, whatever the cost. Our disease is a serious one, but it is not incurable. Provided the government makes the commitment and society at large works hard, we can bring it back to life. In his wisdom, Comrade Deng Xiaoping said recently that we must solve the educational problem by hook or by crook. I hope that we extend our effort from education to culture as a whole. Only that way would there be hope for China.

**Jin Kemu:** We can sum up the way out in two sentences. The cultural crisis today is that we have increasing illiteracy while our doctors and teachers are taking a beating. The way out is to reduce illiteracy and popularize education. Actually one sentence will do: An illiterate culture cannot be a modern culture.

**Li Zehou:** Intellectuals should not pray for favors bestowed from above. On the other hand, I do not approve of violence. History shows that violence is unable to solve fundamental problems. I hope that we can turn things around through gradual reform. But intellectuals should be ready to fight and struggle for even this kind of reform. They should raise a hue and cry, and not only on cultural matters. We should express ourselves on behalf of intellectuals and take part in political discourse. What we say may be futile, but we must still say it. For instance, we have opposed the

extensive construction of nuclear power stations and the three-gorge dam project. Whatever the consequences, we must still voice our objections.

Supervision by public opinion is a vital aspect of democratization. It should also be part of our solution to the cultural crisis. At a time when we still do not have genuine privately run newspapers, I hope that QUNYAN can live up to this role so that democratic parties can gradually evolve into an independent political force and play an active part on China's political stage, speeding up Chinese democratization.

**Ren Jiyu:** The international situation has been easing up in the past couple of years, but only militarily. Competition in other areas, economic, political, cultural, and scientific, has not slackened its pace but has actually been heating up. If we fall back one step in cultural competition, we will continue to trail all the way, dropping further and further behind. This nation from top to bottom still lacks a sense of urgency about cultural competition. We belittle knowledge and overlook education. Instead of checking illiteracy, we are enthusiastically building hotels, high-speed freeways, even the three-gorge dam project. This is like putting the cart before the horse. It will be disastrous for generations to come. There is hope for China only if it introduces universal education, wipes out illiteracy, and improves cultural standards.

**Liu Zaifu:** Over a century of history has taught us just too many lessons. Our nation should gradually shake off its immaturity. Of the many cultural issues we are facing today, some are easier to solve than others. For instance, the issue of cultural control. But there are larger cultural problems. How should we tackle them? As intellectuals, we should rise above pettiness and show an extreme concern for the nation's destiny. Today we can make all kinds of choices. But one choice we cannot make: a return to the ultraleftist order of the past. (Li Zehou interposed, "Including ultraleftist thought in all disguises.") Ultraleftist thought is deep-seated in China. If we cannot revive the cultural dictatorship of the ultraleftist model, can we return to "enlightened dictatorship"? That too is out of the question. "New authoritarianism" is actually "enlightened dictatorship." We must have a yardstick with which to measure social progress. For intellectuals, an important yardstick is spiritual freedom. This is different from the yardstick used by ordinary citizens, which is the degree of material satisfaction. Our reform should consider that yardstick and continue to be mindful of the role of the principle of interest in social progress. Still we must not forget that spiritual freedom is a basic thing. During the days when ultraleftist thought held sway, the cultural arena was dominated by a totalitarianism which was, in effect, a form of spiritual dictatorship. This caused the broad ranks of intellectuals profound anguish. Once "new authoritarianism" materializes, spiritual freedom will be destroyed and a spiritual dictatorship will be resurrected, which would be a calamity for social progress. We should concern ourselves with the yardstick of freedom as well as productivity indicators.

In discussing major historical issues, such as the birth and development of the Chinese communist movement, I think intellectuals should adopt a mature, healthy, and detached attitude. I do not approve of a "finger-pointing" approach to historical research. Instead, I would like to see a sympathetic and understanding attitude. The "who is to blame" mode of thinking should be thrown out. I do not deny the existence of individuals rightly condemned by history. But I object to the method of historical research that concentrates on apportioning blame among people in the past. To do so is to slap our forefathers with many inappropriate labels. Moreover, it will create a negative cultural mentality by scaring people away from making history. I hope we can study history with a sympathetic attitude, calmly and analytically, in a common pursuit of historical progress. Facts prove that a relentless search for historical culprits and abiding faith in the omnipotence of political methods will only create a widespread distaste for political culture. I think this is also a form of cultural malaise that we should take note of. An overly radical and rash attitude will not produce scientific methods that will take us into the future.

**Tao Dayong:** The seminar today has lived up to the spirit of "letting a hundred schools of thought contend." It has been a lively exchange, what with everybody saying all that he knows without reserve. On the current state of Chinese culture, some comrades think there is indeed a "crisis." Others believe it is in some kind of "predicament" at least. Whether it is a "crisis" or "predicament," the situation looks pretty grim. People in all social quarters, especially the leading agencies concerned, should take it very seriously. Whither lies a way out? You have also expressed many opinions there. Since the seminar topic is complex in nature and extensive in scope, covering many areas, it cannot be disposed of in one seminar. There is still so much more you want to say. You are welcome to contribute articles to QUNYAN on this topic and continue the debate. Once again, thank you very much.

#### **Written Statement by Ji Xianlin: Something Has Gone Wrong in Our National Character**

I used to have the utmost distaste for the word "crisis." I thought at least some of the people who used that word were "alarmists." But I have changed my mind 180 degrees more recently. I think our society is indeed facing a crisis, including a cultural crisis, more critical than anything else: There is something wrong with our national character.

National character, of course, is not formed overnight. It takes shape gradually and cumulatively over centuries and even millennia. Our national character certainly includes some good things. But there are also numerous bad things that do a lot of harm. Crime can occur in any age. A little crime is no cause for great concern. But the current wave of counterfeit pesticides, seeds, and chemical fertilizers for use on tens of millions of mu of farmland, endangering the lives of countless people, is no

trifle. Then there are people who steal transformers and cut down electric wires in the countryside, acts that seriously affect agricultural production and should not be taken lightly. Yet others, acting in groups, brazenly chop down forests on the hills, turning Chang Jiang into Huang He. Isn't the press filled with reports of such happenings, which hurt the future as well as the present generations? Our social climate is so bad and some of us are so devoid of morality that this nation of ours simply does not look like a civilized nation at all. Is it an exaggeration to call these people barbaric?

Years ago Lu Xun pointed out many things wrong with the Chinese national character. Not only have they not disappeared, but they show every sign of getting worse. One cannot but feel extremely worried. Sometimes I feel that the disease is beyond cure, that I am myself haunted personally, which sends a chill down my spine. I hope that besides talking about the cultural crisis, we set aside some time to mull over the point I have just made. It is said that Mr Wang Yuanhua [3769 0337 0553] wants us to criticize the old culture thoroughly. I agree. But in view of the experience of the last four decades, I am skeptical about the futility of such criticism. At present I can offer no panacea.

**Written Statement by Tang Tao: If There Is No Culture, There Will Be No So-Called Crisis**

"The cultural crisis and its way out." This is a good topic, a massive topic. Reportedly many articles have been written on it. Unfortunately I live out of the way in the boondocks, where even daily newspapers do not arrive on time, let alone such profound treatises. I recall somebody suggesting that the tidal wave of Western culture and thought is swallowing up and sweeping away traditional Chinese culture. Others say that traditional Chinese culture is like a centipede; it may die, but it does not ossify. Tenaciously, it turns itself into neo-Confucianism and stuff like that and replaces Western culture. Yet others say that at present the old intermingles with the new, the East with the West. All sorts of ideas are there, blending and clashing with one another at the same time. We can call this chaotic culture. What these people say does make some sense and should be looked into further. But this is not what interests me. From what I see and hear, I am worried that we simply have no culture. Hence there is no such thing as a cultural crisis.

I can recall three phenomena.

Phenomenon one: Forest after forest, which prevent sandstorms and soil erosion, is being cut down. Electric wires and railroad tracks installed with much difficulty are taken down or torn up and stolen. Mature fish in fisheries, the product of careful experimentation and painstaking nurturing, are snatched away. In cities, public telephones on street corners are broken. Statues in parks are smashed. Bogus drugs and chemical fertilizers are flooding the market. Parents beat their children to

death because of their poor grades in school. I have doubts about the cultural quality of the Chinese.

Phenomenon two: *Outlook for the 21st Century* by Toynebee has become a best-seller. John Nesbit's *Megatrends: 10 New Trends that Have Changed Our Lives* has also sold numerous copies even though it was published in the West only a few years ago. Iacocca's autobiography and its sequel, *Straight Talking*, have also been well received. I have not been able to find an intrinsic connection between these two phenomena.

I found the third phenomenon in a copy of BEIJING RIBAO sent to me by someone. It is an article titled "Reflections on the Beijing University 'Triangle'" written by a student from Thailand. He wrote, "The 'triangle' at Beijing University is a cluster of bookstores, post offices, and stores. In addition, there is a row of bulletin boards. In my first year, the bulletin boards were covered with posters announcing academic seminars—a scholar giving a lecture on Nietzsche, a poet having a reading, a free discussion on a certain novel. In my second year, the posters were recruitment notices for qigong, boxing, and guitar classes. On weekends, there were announcements about parties and videotaping. In my third year, I saw posters that read: 'Postcards, wall calendars. Original, unconventional design. Great prices.' 'Women's jeans, 15 yuan. Low Price.' 'Newly arrived blank tapes. Buy three packs, get a best-seller free.' '007 announcement: Ladies, xxx Hall, Room xxx welcomes you. Life is lonely; the road is long. Why not choose sincerity and friendship. A joyful gathering, a romantic excursion. Good times, good feelings.'" The Thai student also mentioned a Chinese student who had earlier wanted to apply for graduate school. Now he said, "I am only too anxious to sweat out this year and get my diploma so that I can go to Guangzhou to find a job." According to the article, this kind of "triangle" can be found not only at Beijing University. It would be unfair to blame the students for their lack of interest in studying. I agree with him entirely.

Strangely enough, I suddenly found something in the third phenomenon that inherently links it with the first two phenomena. Moreover, it seems that the question of "finding a way out" has been answered. Comrade Mao Zedong said, "As economic high tide comes, so would a cultural high tide." I think he is right. But is this our cultural high tide?

I am perplexed and anxious.

**Changes Urged in Classifying Counterrevolutionary Crimes**

*Shanghai FAXUE [JURISPRUDENCE] in Chinese*  
No 3, 10 Mar 89 pp 17-19

[Article by Zhou Zhenxiang 6650 2182 1927: "My Views on the Revision of 'Counterrevolutionary Crimes'"]

[Excerpts] Early in the democratic revolutionary period, the base area democratic governmental authorities

included in the criminal laws they enacted the offense of "counterrevolutionary crimes." In the early years of the People's Republic, this offense was retained when the national legislative organs adopted various criminal laws. In 1979, it seemed natural to include the offense of "counterrevolutionary crimes" in the criminal law that was promulgated at that time. But, from today's perspective, it is apparent that the provisions for counterrevolutionary crimes in our nation's criminal law are unscientific and should be revised.

To begin with, the word revolution in its original sense refers to the great changes that occur when people transform nature or society. It is the leap that is made when things are transformed from their old essence to a new essence. When man makes a great change in nature, there are revolutions in technology, production, etc. When man makes a great change in society, there is a social revolution. But not every change made by man in nature or society is a revolution. A change can only be considered to be a revolution if it initiates the liberation, protection, and development of productive forces. Correspondingly, anything that obstructs changes in the development of society's productive forces can be considered to be counterrevolutionary. It is, therefore, apparent that the primary way to distinguish whether a person's actions are revolutionary or not is whether they liberate, protect, and develop productive forces. This is the only standard for distinguishing what is revolutionary and what is counterrevolutionary. However, Article 90 of our Criminal Code provides that "counterrevolutionary crimes are acts done with the intent of overthrowing the political authority of the dictatorship of the proletariat and the socialist system and endangering the People's Republic of China." It is apparent that the terms revolutionary and counterrevolutionary are related only to social revolutions here. Because the content of the provisions pertaining to counterrevolutionary acts in the Criminal Code are very different from what people generally understand them to be and from the original meanings of revolutionary and counterrevolutionary, it is inevitable that the people will be confused in their understanding and that judicial officers will have difficulty determining which cases are of a counterrevolutionary nature.

Moreover, even if it were possible to easily understand what is revolutionary and what is counterrevolutionary from their significance to social revolutions, the use of the offense of "counterrevolutionary crimes" is now obsolete. Lenin pointed out: "What is a revolution from the perspective of Marxism? It is the use of force to destroy the old governing superstructure, the superstructure that will inevitably collapse at some point in time since it contradicts the new productive relationships" (*Lenin's Collected Works*, chapter 1, page 616). Mao Zedong also once said, "Revolutions are rebellions; they are acts in which one class overthrows another class with force." Clearly, if the meaning of revolutions is understood to have this kind of significance, then it is appropriate to define a class society made up of class groups,

and their revolutionary and counterrevolutionary alignments are easy to distinguish. But at the present time, although there are still certain aspects of a class struggle in China, there no longer exists a single exploiting class. The Communist Party of China not only represents the interests of the worker class, it also represents the interests of every other class and stratum, the democratic parties, and the organizations that support the socialist system. Under these circumstances, it is apparent that it would be inappropriate to mechanically continue to make use of the significance of revolution and counterrevolution in the context of class society to differentiate the nature of people's actions. If this were done, the backwardness of some individuals in society would surely cause them to be categorized as counterrevolutionary enemies, making them the targets of revolution, vulnerable to being used as tools by schemers and careerists who usurp the party and disrupt the country by attacking those with views different from their own. Was this not what happened in the 10 years of turmoil caused by Lin Biao and the gang of four? The lesson to be learned from that is that we cannot again allow the epithet of "counterrevolutionary" to rule the day!

Moreover, our country is now exerting itself to establish a socialist democratic government, as it opens its doors to the outside and adopts flexible domestic policies to institute a socialist commodity economy. All people have the right to participate in the government and in political discourse. Any citizen can express his opinions about national policies. Under these conditions, continuing to use the concept of counterrevolutionary crimes is like suspending a sharp sword that could descend at any moment over the head of every individual. This is because any individual who holds different views about party, national, or government policies could be suspected of being counterrevolutionary. This is obviously not conducive to allowing a full expression of views about party or national policies or government policies. For the sake of strengthening socialist democratic government and encouraging the masses to actively participate in the government and in political discourse, the offense of counterrevolutionary crimes should be abolished.

Moreover, it is not only the case that the offense of counterrevolutionary crimes is not scientific. There are many problems with the content of the provisions for counterrevolutionary crimes in our country's current Criminal Code. The most apparent of these is the provision that unequivocally requires that anything done with counterrevolutionary intent be construed as a counterrevolutionary crime, since the motives that give rise to the commission of crimes are by no means readily apparent. Because of this, judicial officers often err when determining whether the conduct of an individual constitutes a counterrevolutionary crime, and theorists often rack their brains trying to demonstrate the elements of counterrevolutionary crimes (like organized prison breaks) in the Criminal Code. It is apparent that

there is a need for change in the substance of the counterrevolutionary crimes that is given in our country's Criminal Code.

The concrete counterrevolutionary crimes that are stipulated in our current Criminal Code are all crimes that directly harm the interests of the nation and endanger the safety of the nation. Their target is the socialist system that acts as the dictatorship of the people. Because of this, this writer feels that the category of "counterrevolutionary crimes" should be abolished and replaced with "crimes of endangering the security of the nation." [passage omitted]

### Legal Scholar Comments on Recent Controversies in Jurisprudence

40050443 Shanghai FAXUE [JURISPRUDENCE] in Chinese No 3, 10 Mar 89 pp 2-5

[Article by Yu Haocheng 0060 3185 2052: "The Rule of Law Must Replace the Rule of Man"]

[Excerpts] Since the 3d Plenary Session of the 11th CPC Central Committee, China's numerous legal workers, under the guidance of Marxism, have been liberating their thinking and doing away with superstitions. They seek truth from facts, make practice the sole criterion of truth, and steer clear of the "two whatevers." They do not blindly follow orders from above or accept everything they read in books, but instead put things in the context of reality and think independently. They have raised many important issues and resolved or tentatively resolved a number of matters through discussion and argument, thereby advancing and developing Chinese jurisprudence. Below is a summary of the major debates and controversies in jurisprudence in which this writer is a regular participant:

#### 1. The Rule of Law Versus the Rule of Man. Can We "Rule China by Law?"

Comrade Mao Zedong said in 1958, "The rule of man, not the rule of law. One RENMIN RIBAO editorial can be implemented throughout the land. What do we need the law for?" As a result, legal nihilism flourished. Policies took precedence over the law. The law became dispensable. This is precisely why the socialist legal system was severely damaged during the Cultural Revolution, why the solemn Constitution was reduced to a piece of scrap paper, why the human rights of even the chairman of the state could not be safeguarded at all. In effect, the rule of man has become a synonym for personal dictatorship and patriarchal rule. "One man lays down the law." Comrade Deng Xiaoping has pointed out, "Democracy must be institutionalized and written into law so that democracy and the law will not change as leaders change and as their opinions and emphases change." What he was talking about was replacing the rule of man by the rule of law and governing the country by law. However, some people in political and legal departments as well as a number of legal

scholars have thought otherwise throughout. In my opinion, the rule of man is consistent with adherence to party leadership; there is no contradiction between the two. This is because the Constitution and the law are precisely the legal expression of the party program, line, principles, and policies. "Governing the country by law" does not mean "the law is supreme" or "the law is omnipotent." (Actually, there is nothing wrong with "making the law supreme." Has not General Secretary Gorbachev of the Central Committee of the CPSU said that the law should be supreme?) "Governing the country by law" is not the same thing as "governing the country by law and nothing else." It does not deny the critical role played by moral, educational, political, and ideological work in running the country well and ensuring peace and tranquillity in the land. Some comrades advocate a marriage between the rule of law and the rule of man, arguing that rule of law alone seems to overlook the human factor and the human function. These people labor under the misunderstanding that the rule of law relies simply on legal provisions and neglects the human factor and the human function. "You cannot depend on law alone." The reasoning is self-explanatory.

This discussion is of tremendous significance because it touches on the vital issue of whether we have learned the correct lesson from the calamity of the Cultural Revolution. The "Resolution on Certain Historical Issues of the Party since the Founding of the PRC," adopted by the 6th Plenary Session of the 11th CPC Central Committee, points out that "China has a long history of feudalism... The lingering pernicious influence of feudal autocracy in politics and ideology is very difficult to eradicate. Moreover, a variety of historical reasons has prevented us from institutionalizing and legalizing intraparty democracy and the democratization of national political and social life. In some cases, the law is in the books, but it does not command the authority that it should. This has given rise to overcentralization of power in certain individuals in the party. With the rise of personal dictatorship and the personality cult, the party and the country failed to prevent the launching and the spread of the Cultural Revolution." (*Selected Important Documents Since the 3d Plenum*, Vol 2, p 819). To make sure that that tragedy would not be reenacted, it is absolutely imperative that the rule of law replace the rule of man and that China be governed by law.

#### 2. The Class and Social Nature of Law, That Is, the Essence of Law

This is a hotly debated issue among legal scholars in recent years. It was first raised by Comrade Zhou Fengju [0719 7685 5282], who questioned the traditional definition of law in his article "Is Law Simply an Instrument of Class Struggle?" published in the first issue of FAXUE YANJIU [LEGAL RESEARCH] in 1980. Since the founding of the republic, the definition of law in notes and textbooks used in colleges and universities and in *Introduction to Law* published in China has consistently adhered to the Soviet Weixinsiji (?4850 2450 2448 1015)

formula. For decades it was frozen in time without any changes. According to this definition, law is a phenomenon unique to class society, an instrument of class rule and class repression. No class, no law. The bulletin of the 3d Plenary Session of the 11th CPC Central Committee points out clearly that the exploiting class has basically disappeared from China and that the class struggle is no longer the primary contradiction in society today. Under these circumstances, if we still consider law as merely an instrument of class struggle, we would have difficulty explaining why we need to strengthen legal construction at a time when the ruling class no longer exists. The inconsistency between theory and reality here is only too obvious. That Comrade Zhou Fengju raised this issue just a little after the 3d Plenary Session of the 11th CPC Central Committee, not sooner, not later, was no accident. Unfortunately, it did not attract much attention at the time.

In the summer of 1983, the Chinese Political Science Society convened a seminar on the definition of political science and systems. At the seminar, I argued that in a class society the state has two functions: oppressing other classes and managing public affairs. I went on to suggest that, concomitantly, law has a dual nature, class nature and social nature.

### 3. The Relationship Between Politics and Law, Between Policies and Law

Traditionally, we lumped politics and law together, as in political and legal agencies, political and legal work, and colleges and institutions of politics and law. In fact, politics and law are not altogether the same thing. In theory, it is necessary to put politics in command of the law because politics should be in command of everything. Lenin, for instance, had said that a class cannot maintain its rule if it does not consider things from the political perspective. But politics is no substitute for everything else. It cannot replace art and literature; artistic and literary creations have their own characteristics and principles. Political propaganda and literary and artistic works are not interchangeable. Similarly, politics cannot replace law. Law, too, has its own characteristics and attributes, such as impartiality, stability, and consistency. For years we used to apply laws on the basis of changing circumstances and political expediency. This made laws too flexible, much like policies. The way they are written, our laws are too loose to begin with, only to become more so in the course of implementation. Sentencing, for instance, is now too severe, not too lenient. The two ringleaders in the watermelon looting case were sentenced to life imprisonment. The criminals who unsuccessfully tried to rob the Imperial Palace were given the death penalty. In both cases, the punishment was too severe. On the other hand, Ni Xiance [0242 3759 4595], the former governor of Jiangxi who took bribes in violation of the law, got off too easily: He was given a mere 2-year jail term. When the law loses its impartiality and consistency this way, its dignity suffers as well. Since the PRC was founded, we have largely relied on policies and on mass political movements to

enforce those policies, instead of relying on the legal system and the rule of law and putting our work in the legal framework. Some time ago certain leading cadres were still saying that we should now graduate from a reliance on policies to a reliance on the law as well as policies. In fact, 40 years into the republic, we should be completely capable of ruling the country by law and rigorously enforcing the rule of law. Only when a policy is converted into law through legally prescribed procedures by the organs of power can it become the will of the state and assume a mandatory character. A policy that does not go through this process can only be enforced at the discretion of the people. At present we are still arguing whether we should "reform first and legislate later" or vice versa. Before the 7th NPC [National People's Congress] passed two amendments to the Constitution in 1988, land transfer and a private economy were already faits accomplis. The NPC did nothing more than change the law "retrospectively." Such a move does nothing to enhance the authority and dignity of the law.

### 4. The Relationship Between the Four Cardinal Principles and the Constitution

Before the new Constitution was adopted in 1982, I made the following point regarding the relationship between the four cardinal principles and the Constitution: The former are the guiding ideas behind the latter. However, it must be noted that the four cardinal principles are not treated in the same way in the Constitution. The Constitution lays down the nation's basic system. Democratic dictatorship by the people and the socialist road are written into the Constitution, which states unequivocally that our nation practices a people's democratic dictatorship and that socialism is our basic system. They are protected by law and nobody shall oppose them. Our criminal code also provides that all counterrevolutionary activities that damage socialism and the people's democratic dictatorship shall be punished severely. But party leadership, Marxism-Leninism, and Mao Zedong Thought are something else. They do not belong to the realm of state institutions, so they are mentioned only in the preface to the Constitution as part of the narrative of the historical experience and declaration of political direction. The CPC makes its leadership attractive to the masses by the correctness of its political proposals, theories, programs, line, policies, and principles and the exemplary conduct of its rank-and-file membership so that the people will follow party leadership voluntarily of their own free will. That being the case, we cannot write party leadership into law and order every citizen to obey the party. We do not order people into submission. Nor should we say that every citizen is duty-bound to obey the leadership of the CPC. As science and truth, Marxism-Leninism and Mao Zedong Thought should convince the people by their logic so that the people believe in them wholeheartedly. We cannot just issue an order forcing the people to believe in them. It is wrong to make party leadership, Marxism-Leninism, and Mao Zedong Thought part of the Constitution proper as in the 1975 Constitution.

Also being debated is whether or not the preface of the Constitution is legally binding. I would argue that it is not, because it is not written in a legally mandatory language. Contentwise, it is mainly a narrative of the historical revolutionary experience and a declaration of political direction. An authoritative elderly legal scholar also suggests that the preface is not legally enforceable, with the exception of its last paragraph, which says, "This Constitution affirms legally the achievements of the struggle of China's various nationalities and lays down the nation's basic system and basic tasks. It is the nation's basic law and has supreme legal authority. All nationalities, all state organs and armed forces, all political parties and social organizations, and all enterprises and institutions shall operate by rules based on the Constitution and shall be responsible for safeguarding the dignity of the Constitution and ensuring its implementation." I, for one, submit that the last paragraph, like the preface as a whole, is not legally binding. Article 5 of the General Principles of the Constitution repeats this paragraph almost in full, "The state protects the consistency and dignity of the socialist legal system. No laws, administrative regulations, or local regulations shall contradict the Constitution. All state organs and armed forces, all political parties and social organizations, and all enterprises and institutions shall abide by the Constitution and the law. All behavior that violates the Constitution and the law shall be investigated. No organization or individual has the privilege of being above the Constitution or the law." If it is necessary to repeat these words in the Constitution proper, it is obvious that the last paragraph of the preface is not legally binding. Actually, whether the preface is legally binding is an academic issue best left to legal scholars. However, following the "anti-bourgeois liberalization" movement of early 1987, I have been criticized by name for "opposing the four cardinal principles" at a number of internal meetings. This is both incomprehensible and disappointing to people with high hopes for the drive to "let a hundred schools of thought contend."

#### 5. Checks and Balances Versus the Fusion of Parliamentary and Executive Powers

In view of our national conditions, we should not separate the three branches of government. What we should do is to adopt the principle of checks and balances as a necessary supplement to the principle of democratic centralization. The painful lesson China and other socialist nations have learned in the past proves that absolute power corrupts. This is true even for giants like Stalin and Mao Zedong. The 1982 Constitution has in effect jettisoned the "fusion of parliamentary and executive powers" in favor of "checks and balances." The presidency of the PRC, the chairmanship of the Central Military Commission, and the premiership of the State Council, which in the past used to be held by the same person, are now held by separate individuals. Members of the Standing Committee of the NPC may not serve concurrently on the Supreme People's Procuratorate or the State Council. This shows that checks and balances have replaced the "fusion of parliamentary and executive powers." The latter was put forward by

Marx after reviewing the experience of the Paris Commune. The Paris Commune, however, exercised power over only one city in the midst of a fierce struggle. Its experience does not necessarily have universal significance. Revolutionary committees set up in China during the Cultural Revolution are the closest thing to the Paris Commune. But have we not abolished them as a bad example? It seems to me that we need not embrace every single thesis put forward by the founder of Marxism. This debate is still going on.

#### 6. Assumption of Innocence Until Proven Guilty

This means that a person is treated as if he were innocent until after an investigation has clearly proved that he is guilty and he is convicted. This principle was criticized as a bourgeois legal viewpoint in the antirightist struggle in 1957. Since the 3d Plenary Session of the 11th CPC Central Committee, almost all legal viewpoints criticized in 1957 have been rehabilitated, the only exception being the assumption of innocence until proven guilty. That has never been formally redressed and was actually criticized anew as a bourgeois legal thesis in the "anti-spiritual pollution" campaign, briefly throwing into a state of anxiety those comrades who had championed and written on it. The fact of the matter is that this principle has almost universally been adopted in criminal proceedings around the world. [Passage omitted]

Some say this principle is a foreign import. Actually, like democracy, freedom, and the principle that everybody is equal before the law, it is a product of the democratic revolution waged jointly by the bourgeoisie, the proletariat, and the masses against feudalism. The feudal class supported and embraced the principle of "assumption of guilt until proven innocent." All defendants were assumed guilty. Whatever the merits of the case, a defendant was beaten as soon as he appeared in court. Thus, the implementation of the principle of assumption of innocence until proven guilty is a giant step forward for all mankind. Some say, "We do not assume innocence until proven guilty. Nor do we assume guilt until proven innocent. We base ourselves on facts and take the law as the criterion." While seemingly logical, this statement does not really solve any problems. The crux of the matter is this: Before facts are ascertained and before a sentence is handed down, what legal position does the accused really occupy? Is he guilty? We propose that we continue discussion of this issue because if we resolve it correctly, it would help safeguard human rights and greatly reduce the incidence of miscarriage of justice.

The six debates above are only some of the controversies that the legal community has been grappling with during the last decade, but they are among the more important and representative ones. As we take a look back today at these debates, we should review in earnest what we have learned. I think the following points merit our serious attention:

1. We should implement the double-hundred policy—"let a hundred flowers bloom and a hundred schools of



thought contend"—and the "three-don't policy"—"don't put a label on others, don't capitalize on someone's vulnerable point, and don't come down with the big stick on somebody"—in deed as well as in word. These party policies were written into the Constitution a long time ago. Every constitution, from the 1954 Constitution to that in 1982, provides for freedom of speech, freedom of publication, freedom of literary and artistic creation, and freedom of academic research as a citizen's basic human democratic rights. There is no provision in the Constitution prohibiting the discussion of political issues by citizens. It is unconstitutional, therefore, to criticize different viewpoints on academic theoretical issues as political errors or to impose administrative sanctions against people who hold those viewpoints. In the last 10 years, there have been endless rounds of mass criticism and political movements, although they are not known as such. With events like the "anti-spiritual pollution" campaign and the "anti-bourgeois liberalization" movement, the question is not so much one of carrying out the party's double-hundred policy or not, not even one of inconsistency in applying the law, but more one of applying the law or flouting the law, of doing things in accordance with the law or putting power ahead of the law. In other words, it all boils down to this major question: Do we want the rule of law or the rule of man? "When a law is not observed, it starts with the people at the top." If an inalienable civil right-like freedom of academic research is not effectively protected by law, then clearly scholarship will not be able to advance and flourish. Anything they may say to the contrary is only so much humbug designed to fool people.

2. We must continue to emancipate our minds and have the courage to seek truth from facts and break with taboos. Do not listen only to what people at the top say. Do not believe everything we read in books. Instead, make practice the sole criterion of truth. Only by furthering Marxism can we adhere to Marxism. Comrade Deng Xiaoping says it well, "When a party, a country, or a nationality practices book worship, subscribes to superstition, and lets its mind ossify, then it cannot move forward. It will become devitalized and be annihilated." For instance, some comrades in the field of law shied away from mentioning the rule of law all those years, preferring the phrase "legal construction" instead, primarily because Comrade Mao Zedong once said we needed the rule of man, not the rule of law. It is precisely this habit of embracing everything Chairman Mao Zedong said on this important legal theory that has impeded and stalled our theoretical progress and development. This major lesson we must remember in earnest.

3. Chinese law has been criticized as unsophisticated. Some comrades are not fully convinced of that. As I see it, we should face up to reality clear-headedly instead of persisting in blind optimism and continuing to deceive ourselves. Take the principle of assumption of innocence until proven guilty mentioned above. That issue was resolved in the international legal community more than 200 years ago. In China, however, it is still an outstanding question. Is this not a clear sign of our backwardness? This situation is inseparable from the fact that some arbitrary and subjective people in the party have consistently isolated themselves, frozen their thinking, dealt with academic matters in an authoritarian manner, and stifled independent thinking. [passage omitted]

**Beijing Situation Deemed Unlikely To Lead to Civil War**

*Taipei LIEN HO PAO 9 Jun 89 p 4*

[Article by special Hong Kong correspondent for SHIH-CHIEH JIHPAO Yu Yuenjo 0205 3220 5387: "Former Communist Military Officer Yu Pin's Analysis: Although the Crisis of Civil War Exists in Beijing, the Present Situation Will Only Lead to Inner Turmoil"]

[Text] In analyzing the current state of the military in Beijing, Yu Pin [0151 3453], a former officer of both the 38th and 27th Armies of the Chinese Communist Party, who is presently diligently studying for a PhD in Political Science at America's Stanford University, points out that although the Communist military is indeed amid a crisis of civil war, all that will come of it presently will be inner turmoil; there will be no civil war.

Yu Pin served as an officer in the 111th Division of the communist military's 38th Army for five years and also served in the 27th Army for two years. He accepted an interview with a Hong Kong television station in San Francisco, United States, to analyze the Communist military's situation.

He points out that both the 38th and 27th Armies are crack troops of the Chinese Communist military and that the 38th Army is the strongest force in the People's Liberation Army [PLA]. In established troop strength, however, the 38th and the 27th Armies are comparable. They are both group armies with six divisions, incorporating three infantry divisions, one tank division, one AAA [antiaircraft artillery] division, and one artillery division. Each army has more than 1,000 tanks and more than 1,200 armored personnel carriers.

Yu Pin believes that, speaking of the confrontational positions that the 38th and 27th Armies find themselves in at the present time, the 38th army has the more advantageous position from the military point of view both because it is on the periphery and thus has a

relatively easy time of maintaining supplies of food-stuffs, ammunition, and medicine, and because it has the support of the masses.

But the 27th Army occupies the main thoroughfares and buildings of Beijing City proper, so, if the two armies engage in battle, the 38th Army will be on the offensive and the 27th Army will be on the defensive, and this would not be advantageous to the 38th Army.

However, the 27th Army has already been tired for several days and morale among the troops is low, so, if they were suddenly surrounded by the 38th Army, they might be able to hold out only for several days or maybe only for several hours.

Yu Pin points out that splits among internal factions have always existed in the PLA. The 38th Army is geographically close to Beijing and, since coming to Beijing, many officers and soldiers have developed a great understanding of the Beijing situation, so when they were originally ordered to enter Beijing to implement martial law, they had to be forced to enter the city.

At the same time, if the troops of the 38th Army change, and those of the 38th, 39th, 40th, and 16th Armies who had close relations with Lin Piao years ago unite, they would be able to oppose the 27th Army.

Although the 27th Army might be able to get the support of the 17th Army and the 15th Airborne Army from Wuhan, the ground fighting ability of the 15th Army is limited.

Yu Pin feels that although the news is spreading that presently on the mainland certain areas are using the military to suppress the masses, the opportunity for civil war to occur is not yet ripe. If Beijing further uses the military to shoot and kill townspeople in outside regions, then the outcome can only be the creation of turmoil. Because a third of the regular armies are currently in Beijing, the PLA will find it difficult to dispatch troops to other regions to help the suppression.

## EAST REGION

### Shandong Official Stresses Importance of Building Party

SK0107034789 Jinan DAZHONG RIBAO in Chinese  
26 May 89 pp 1-2

["Excerpts" of speech by Comrade Jiang Chunyun, secretary of the Shandong Provincial CPC Committee, at the 11 April provincial party-building work conference: "Unify Ideology and Understanding and Be Determined To Achieve Success in Party Building in the Province"]

[Text] Fellow comrades:

This conference has been held in a very good manner. The conference's participants have earnestly studied the important speech by a central leading comrade on the work of party building, have summarized and exchanged experiences in line with reality, and have warmly discussed how to strengthen party building under the new situation. The participants have generally stated that they have enhanced their understanding, learned from experiences, found out what to do, and strengthened their confidence. Just as comrades here have said, this is the first provincial party-building conference on such a large scale. This will certainly and positively promote party building throughout the province.

With regard to the province's party-building work, comrades Quanjing, Fenglin, Fude, and Zhenxing made speeches on special subjects, and demands had been raised from the discipline inspection, propaganda, organization, and united front departments. I hope that all localities and units will conscientiously implement them. Now I would like to stress some other issues in line with the opinions of Standing Committee members of the provincial party committee.

1. We should clearly understand the importance and urgency of strengthening party building under the new situation.

Is it necessary to strengthen party building, and what position should party building assume under the new situation? This is the question that should be answered first. Generally speaking, since the 3d Plenary Session of the 11th CPC Central Committee, over the past few years in particular, our province has done a great deal of work and has achieved some results in grasping party building; and the situation of party organizations at all levels has been good. It must be noted, however, that quite a few problems remain in provincial party building work. Major indicators are the slack and insufficient control over the party and the failure in placing party building in a proper position. The reason for this phenomenon is multifaceted. The most basic reason is that some of our leading comrades have lacked an understanding of the extremely great importance of party building.

It must be noted that under the new situation, strengthening party building is not only necessary, but also has very great significance. First, reform and construction tasks during the new period are extremely arduous and complicated. This has set still higher demands on our party. If we refrain from actually strengthening party building and improving the leadership and organizational expertise of the party, it will be impossible for us to command the whole situation and shoulder the heavy historical task of guiding the four modernizations. Second, under the new situation, our party is confronted with the tests of ruling the country and carrying out reform and openness. If our party refuses to strengthen building, to improve the quality of party organizations at all levels and party members, and to resist the inroads of corrosive ideas of various kinds, it will be defeated by power and money and will possibly be engulfed by the boundless ocean of the commodity economy. Third, viewed from the current situation of our party, there are many problems, although the main trend is good. A considerably great number of party organizations in the province are listless and weak, and are even paralyzed or semiparalyzed. A minority of party members cannot play their due role, and even violate laws and discipline. In particular, the proportion of party members committing economic crimes has tended to increase. All these problems will seriously affect the prestige of our party and harm the body of the party. Practice proves that the life or death of the party and the success or failure of the four modernizations hinges on party building. Therefore, party committees at all levels must pay careful attention to party building, and must regard it as an extremely urgent political task.

2. We should strive to improve the quality of party organizations at all levels and the vast number of party members in order to adapt ourselves to the demands of the new situation and new tasks.

The most important work of party building is to improve the quality of the party. At present, the number of party organizations and party members is not small. The problem lies in quality. Now, the province has some 8,600 general party branches, some 190,000 party branches, and some 3.88 million party members, accounting for 4.8 percent of the total population, or an increase of 170 percent over the figure before the Great Cultural Revolution. Both party organizations and the ranks of party members have developed quickly over the past few years. However, viewing the situation in displaying the leading role of party committees, the fighting role of party organizations at the grassroots level, and the vanguard and exemplary role of party members, we still have a long way to go in meeting the demands of the new situation and new tasks. The high or low quality of party organizations and members directly affects the party's image, prestige, and combat strength. In appraising the party, the masses mainly appraise the function of party organizations and the behavior of party members, except for appraising the party's line, principles, and policies. Meanwhile, they often evaluate the party in line with the

expression of party organizations around them. Many typical cases and experiences introduced at the meeting indicate this point from various angles. Party organizations at all levels and all party members throughout the province must earnestly study, deeply understand, and resolutely implement the party's basic line, and must regard problems concerning the line as the core issues of party building, which should be dealt with immediately. Efforts should be made to firmly uphold the principle of one center and two basic points so as to meet the demands of the new situation and tasks.

We should catch up with the situation ideologically. A large number of our party members, including some leading cadres, ideologically lag behind the situation and do not thoroughly understand or are unaware of the programs of conducting reforms, opening to the outside world, and developing the commodity economy, as well as of the current tasks of improving the environment and rectifying order. What is very important in enhancing party building in ideology is to lead party members to further emancipate their minds; to enhance their sense of conducting reform, opening to the outside world, and developing the commodity economy in a planned manner; and to strengthen their acceptance of reforms and their capability for resisting corrosive influences. We should conduct education among party members separately at every level. Efforts should be made to emphatically conduct education on the intention of party member applications, on Communist ideals, and on the party's fundamental purpose and basic line among those who are applying for party membership. By no means should we recruit any person who is not willingly to wage a struggle for communism or to wholeheartedly serve the people, but only wants to seek personal gain by becoming a party member. We should do a good job in strictly examining the applications for party membership. Among the new party members who have entered the party since the Great Cultural Revolution, we should pay attention to conducting education on basic knowledge of the party and its fine traditions so as to steadily enhance their sense of party and improve their party spirit. We should have some veteran party members increase much new knowledge concerning the programs of conducting reforms, opening to the outside world, and developing the commodity economy, consciously renew their concepts, and consistently maintain their vanguard position of the age.

We should catch up with the situation organizationally. After shifting the party's work emphasis, the form of social economic organizations and the style of their activities have incurred large changes. To suit the newly changed situation, it is imperative to enhance the coherence, attraction, and combat strength of party organizations; to truly bring into play the core role of party committees in leadership and the combat fortress role of party organizations at the grassroots levels. Efforts should be made to enable party organizations at all levels, through successfully conducting self-improvement, to be able to unswervingly implement at

any time the party's basic line, to earnestly enforce the policy decisions issued by the higher authorities, to actively carry out party work, and to take a clear-cut stand in combatting unhealthy trends. We also must adequately readjust and improve the party's organizational setup and the styles of party activities.

We should catch up with the situation in workstyle. Over the past few years the workstyle exhibited by some party member cadres with regard to becoming bureaucratic by losing contact with reality, enjoying privilege by becoming estranged from the masses, and indulging in extravagance and waste by seeking ease and comfort, has become increasingly prominent. To deal with these problems, it is necessary to continuously inherit and carry forward the party's three main workstyles. Under the current situation, in which the tasks of conducting reform and construction, improving the environment, and rectifying order are both arduous and heavy, and new problems have successively cropped up, we should particularly stress that efforts should be made to go deeply into reality to carry out investigation and study and to upgrade the efficiency of doing things and the standards of policy decisions. Under the situation in which the economy has become increasingly prosperous and material living conditions have been continuously improved, we should particularly stress that efforts should be made to inherit and carry forward the workstyle of waging arduous struggle and to uphold the principle of building up the country industriously and doing everything industriously. Under the situation in which the party is in power and many party members have had certain power in their hands, we should particularly stress that efforts should be made to uphold the party's purpose, to correctly utilize the power entrusted by the people, to work for the benefit of the people, and to do practical deeds for them.

We should meet current demands in the field of knowledge. Carrying out the modernization drive, we must have sufficient knowledge of social and natural sciences. Refusing to renew knowledge and concepts and refusing to expand the scope of knowledge, leading cadres will lose their leading power, and party members will find it hard to fully exploit their vanguard and exemplary role. Under the new situation, strengthening study is an unshirkable task of all party members, and of party members holding leading posts in particular. Party members should not only study politics, ideology, and theoretical knowledge, but should also study cultural knowledge, science, technology, professional knowledge, and managerial knowledge, so as to improve their skills in guiding reform and construction. At present it should be especially stressed that party members should study the fundamental tenets of Marxism-Leninism and should apply the Marxist stand, viewpoint, and methods to answer and solve the principal problems emerging in the practice of reform and construction. The provincial party committee hopes that a strong atmosphere of study will be created within the party throughout the province, and a study emulation drive will be launched to find out

who studies more and better. Leading cadres at all levels should set an example in studying, should take the lead in studying new knowledge and learning new skills, and should strive to make new progress every year.

3. We should uphold the party's purpose and maintain a clean and honest workstyle.

Party style, administrative honesty in particular, is a major issue related to the life or death of the party. Historical experiences tell us that when the party style is good and the workstyle clean and honest, the people support the party, the prestige of the party is high, and the coherence and influence of the party is strong. Otherwise, the party will be separated from the masses and the authority of the party will be seriously damaged. It was so during wartime, and is not exceptional in the period of reform and construction. Under the new situation, party style and administrative honesty have once again been placed before us. A small number of party members, particularly a certain number of party member cadres who hold some power, have bartered power with money, violated laws and discipline, and have indulged in extravagance and corruption, thus evoking grave complaints and causing a very bad influence among the masses. In doing party-building work, we must concentrate our energy on solving problems with regard to party style and administrative honesty. Among party style, administrative style, and social atmosphere, the key lies in party style. Only when party style is straightened out will administrative style and social atmosphere improve.

While it is very difficult to solve problems concerning administrative honesty, it is not impossible to realize this. Now, the party Central Committee and the State Council are already determined to grasp the development of administrative honesty, and have adopted a series of effective measures for this work. As far as the province is concerned, the building of administrative honesty has been grasped relatively early, and some good experiences have been accumulated by various localities. We have held successively Changle "on-the-spot" meetings and the mobilization rally of provincial organs to summarize and popularize the experiences of Tancheng and Changle Counties. Through this work, initial achievements have been scored in developing administrative honesty. Facts prove that it is by no means impossible for us to solve problems concerning administrative honesty. The key to solving these problems lies in the determination and exemplary role of leaders and in their endeavor to improve systems, to make administrative affairs visible to the public, to accept supervision by the masses, and to conduct democratic appraisals. Of course, the building of administrative honesty is a protracted and arduous task, and thus we should not be impatient for success. However, if we persistently begin with ourselves, our own units, our leaders, and the "microeconomic climate," we will certainly be able to gradually form a "medium-economic climate" and a "macroeconomic climate."

In the final analysis, keeping honest in performing official duties means upholding the party's fundamental purpose. We must deeply conduct education on the party's purpose among the broad masses of party members, particularly among party member cadres, and firmly foster the idea that the interests of the party and the people is above any else. Party members should know well that they must be ready to suffer losses and to selflessly make contributions. The party acknowledges personal interest, and its policies are formulated to protect personal interest. However, individuals as party members must put the interests of the party and the people in first place. At the crucial moment they should not hesitate to sacrifice themselves. Efforts should be made to straighten out the relationship between masters and public servants, to think of and show concern for the masses, and to actively serve the masses and help them eliminate worries and overcome difficulties. By no means should they utilize the power entrusted by the people to seek private gain at the public expense and to harm others to benefit themselves.

In encouraging personnel to perform their official duties honestly, it is imperative to uphold the principle of consolidating public security in a comprehensive way and to combine the measures of education, administration, systems, discipline, and law. Party and government organs at all levels and departments in charge of economic work should establish or improve regulations and the restricting mechanisms that suit development of the commodity economy, truly make public their working systems and results, and deal with their problems in a down-to-earth manner by relying on the supervision and democratic criticism of the masses outside and within the party.

4. We should strictly run the party and strictly enforce party discipline.

Behaving in a lax manner in running the party constitutes a notably weak link of the current work in party building. Subjectively speaking, the most important reasons why some party organizations become flabby, lack unity, and are unable to play their due role and why a few party members not to behave properly or even violate party rules and regulations lie in not setting forth strict demands for party organizations and members and enforcing discipline perfunctorily. Some problems where party discipline should be enforced have not been dealt with strictly but have been tolerated and accommodated with nothing definite done. As time passes, some wrong things will crop up and spread under such circumstances, which will sap the morale of party members and weaken the combat strength of party organizations. We must earnestly draw lessons from them.

In strictly running the party, it is imperative to strictly uphold the standards of party members. The party constitution includes the eight articles on standards for party members. Each party member should act according to the eight articles, and by no means should any

standard be lowered. Under the new situation in which tasks of conducting reform, opening to the outside world, and developing the commodity economy are being carried out, the party character must remain unchanged and be impossible to change, and the standards of party members cannot be downgraded. Party members in both urban and rural areas and workers, peasants, and intellectuals, as well as general and leading personnel, should behave only according to the party constitution and the standards for party members. Every party member is equal before the constitution, and by no means should they enjoy privileges and be exceptional. Party members in leading organs, particularly party member cadres in charge of leading work, should set strict demands on themselves and do a good job in conducting their work.

In strictly running the party, it is imperative to strictly enforce the party's organizational life. The current major problem in this regard is that some party organizations do not enforce their organizational life in a regular manner and have even eliminated it. Furthermore, the quality of their organizational life is not high, their organizational life has been without practical content, and lacks criticism and self-criticism. Party organizations have often turned their meetings on organizational life into work meetings. Our party organizations at all levels should improve their party organizational life systems as soon as possible in line with the provisions of the party constitution. While upholding the successful convocation of its own meetings on democratic life, the Qingdao City party committee has often conducted concrete guidance over the organizational-life meetings sponsored by its subordinate units, which has promoted the ideological building of leading bodies. The experience gained in this regard is worth popularizing.

In strictly running the party, it is imperative to earnestly and adequately deal with cases concerning unqualified party members. Our province has gradually carried out work in this regard on the basis of conducting pilot work since the end of 1987. Generally speaking, results scored in this work are more obvious, a few members have been punished, and the majority of members have been educated in the course of dealing with cases. However, tasks in this work are still heavy, and there are a considerable number of units that have not carried out such work. Although some have dealt with cases in this regard, their work quality was low and they did their work perfunctorily. The provincial party committee urges all units that have not carried out this work to do a good job in earnestly conducting the work in line with the criteria and demand. Those that have had low-quality work or have done it perfunctorily should make up what they missed. Party and government leading organs, including the departments directly under the provincial party committee and the provincial government, should rapidly change this situation and attend to this work. In dealing with unqualified party members, the most important thing is to successfully conduct democratic appraisals in line with the criteria for party members. In this respect, Weifang and Linyi have adopted some good

methods. In conducting democratic appraisals among party members in county-level organs, Changyi County has persistently implemented the policy of "making five affairs visible to the public" and has drawn distinctions in "five areas," yielding good results and gaining good responses. From now on, democratic appraisals of party members should be made a system, and should be conducted once a year. Through appraisal, outstanding party members should be encouraged, ordinary ones should be spurred on, and unqualified ones should be dealt with.

To strictly administer the party, we must strictly enforce party discipline. Those who violate laws and discipline must be investigated and dealt with severely. In particular, the handful of corrosive elements inside the party who abuse power to seek personal gain, indulge in embezzlement, bribery, or racketeering, and who are morally degenerate must be resolutely dismissed from the party without any indulgence. Party committees and discipline inspection commissions at all levels must adhere to principles, not be afraid of giving offense, resist the trend of interceding for others, and thoroughly investigate malpractices.

5. We should strengthen organizations at the grassroots level and give full play to the role of party organizations at the grassroots level.

Party organizations at the grassroots level are the foundation of all party work, as well as the most direct bridge and link for strengthening the ties and unity between the party and the masses. At present, most party organizations at the grassroots level in the province are good, or relatively good, and combatworthy; and the comrades at the grassroots level are working arduously. However, there are presently a number of party organizations at the grassroots level that are unable to perform their proper role, and thus the principles, policies, and tasks of the party cannot be implemented there. A survey shows that about 20-30 percent of the units in urban and rural areas are backward in grassroots work. Party committees at all levels must be determined to rapidly change such a backward situation. The general demand is that all party organizations at the grassroots level should earnestly implement the eight tasks and attend to the seven items of day-to-day work in line with the arrangements of the 13th party congress and the requirements of the party constitution; and should use them to conduct comparison and examination. Those party organizations that do a good job in this regard should be encouraged, those that do a relatively poor job should be spurred on to improve their work, and those that do a poor job should be consolidated. Only when the eight tasks and the seven items of day-to-day work are actually implemented will party organizations at the grassroots level be more attractive and combatworthy.

In grasping organizational building of the party at the grassroots level, we should depend primarily on the force of grassroots party organizations themselves and give

play to the internal role of these organizations. However, party leading organs at higher levels should also assume important responsibility. Practice proves that selecting cadres from party and government organs and dispatching them to work for units whose work is weak or to take on the work of villages has been a successful method. Earlier, Muping County dispatched office cadres to backward villages to directly hold the posts of secretary of village party branches and chairman of the villagers' committees, with their office term remaining unchanged for a 3-year period. This method has been well received by the masses. Afterwards, Linyi and Liaocheng Prefectures also adopted this method and scored relatively obvious results. This year the Heze Prefectural CPC Committee released 8,594 cadres from organs at the prefecture, county, and township levels and sent them to various villages to take over the work. All units whose work was weak were provided with such cadres. This is a large action worth supporting. The provincial party committee has decided that this year, on the premise of not changing organizational reform, a number of cadres who are in their prime and who have great potential and some work experience will first be released from provincial, city, prefecture, county, township, and town organs, and then will be dispatched to serve grassroots areas in urban and rural areas. The provincial organs will release about 10 percent of their cadres, the prefecture and city organs will release 15 percent, and the county and township organs will release a still larger proportion of cadres to serve the grassroots areas. Such cadres will be dispatched primarily to the units, villages, plants, and neighborhoods whose basic work is weak. Such cadres will also be assigned to take on the work of villages and enterprises. Those who are determined to resign from their current posts and return to their hometown to work are also well received. The major tasks of such cadres are to help grassroots areas develop the commodity economy, build the two civilizations, and build good leading bodies. This work should be specifically carried out by organizational departments in line with the decision of party committees at all levels. Through 2 to 3 years of endeavor, we should effect a remarkable change in the weakness of the basic work of various urban and rural areas.

While enhancing the building of party organizations at the grassroots level, we should attach importance to building the Communist Youth League [CYL]. Meanwhile, a good job should be done in building village committees and urban neighborhood committees, and efforts should be made to bring into full play the role of mass organizations, including trade unions, women's federations, and militia departments; to support them in being responsible for conducting their work independently; and to provide necessary work conditions and activities for them.

6. We should uphold the principle of the "four requirements" of training cadres and enhance the building of leading bodies at all levels.

In conducting the work of party building, core issues are to train cadres and to build leading bodies. Through reinforcing, readjusting, and consolidating them over the past few years, our province's leading bodies at all levels have brought about larger changes in their situation and their structure of age and cultural standards. Their political qualities and their practical standards of leadership have been markedly upgraded. However, there still are few leading bodies that are not perfect and effective. Therefore, success in building leading bodies constitutes a requirement for improving the atmosphere, rectifying order, and deepening the reform drive; the emphasis on party affairs; and the pressing matters of the moment.

In building leading bodies, efforts should be made to implement the principle of "four requirements" in an overall way; to put the work of revolutionizing them in first place; and to pay attention to training in ideology and morality among cadres with the reality of their work, to optimization of the structure of leading body groups, and to the whole function of leading bodies. Hereafter, we should reinforce and readjust the leading bodies that deserve it, on the premise of keeping them relatively stable and by upholding the principle in which whatever problems exist should be dealt with. Leading bodies that have long been disunited and disharmonious should be examined one by one to find out why, and a good job should be done in conducting the work of promoting unity among them. As for problems that cannot be solved through conducting education and assistance, we should adopt organizational measures to readjust the leading bodies. Great attention should be paid to selecting middle-aged and young cadres and to training women and nonparty cadres. Meanwhile, we should uphold the system of exchanging cadres and create conditions for cadres to grow to maturity as soon as possible and to fully play their role. A good job should be further done in carrying out democratic appraisals, conducting the work of recommending cadres, and enhancing openness and transparency in personnel affairs as well as participation of the mass in selecting cadres. In selecting cadres, we should integrate the masses with leadership and further enlarge the scale of democratic appraisal and cadre recommendation. Prior to making policy decisions, we should carry out survey and appraisal at a certain level on some important personnel arrangements so as to solicit opinions from various social circles. Our province has carried out democratic appraisals of cadres for 3 years and scored very good results. Such appraisals should be continuously upheld, improved, and carried forward. Efforts should be made to stress the method in which cadres report their work and the masses appraise their work. A large number of counties have begun to enforce this method. It seems that the road of enforcing the method is correct, and should be gradually popularized. Counties, districts, cities, and prefectures should first take up the work of enforcing the method that then will be expanded to the provincial-level organs.

In enhancing the building of leading bodies, a good job must be done in conducting the work for veteran cadres who are on convalescent leave and about to retire. We



should make good arrangements for and care about the livelihood of retired veteran cadres and pay attention to having them continue to play a role. Efforts should be made to uphold the system of cadre retirement and to have veteran cadres who have reached the age set forth in the provisions of the circular issued by the Organization Department of the CPC Central Committee go through the procedure of retirement. Meanwhile, attention should be paid to dealing with problems concerning wages.

7. We should enhance and improve the party's ideological and political work.

Ideological and political work is the longstanding strong point of our party. Studying and exploring the issue of how to successfully conduct this work under the new situation represents an important content of party building. Over the past few years party committees at all levels have made some favorable attempts and improvements in this regard and have accumulated some good experiences. However, generally speaking, ideological and political work still cannot meet the needs of the situation in conducting reform and opening to the outside world. A large number of units have adopted a lukewarm attitude toward the work and weakened it, and some have even abandoned it. This should arouse our high vigilance. We must pay attention, enhance, and improve ideological and political work as we did in grasping economic work.

We must note that during the new historical period, ideological and political work has given rise to the following new characteristics: 1) After shifting the party's work emphasis, we must shift the service of ideological and political work for class struggle to that of the modernizations. 2) In the course of social transformation, the people's ideology has become unprecedentedly lively, and therefore we must shift the closed style of ideological and political work to an open one and should improve this work. 3) The upgrading of the people's ideological and cultural standards has created a new and higher demand for ideological and political work. 4) Since changes have emerged along with development of the situation in the principles followed in ideological and political work, we must shift the principle from one-sided stress on the spiritual role of work to upholding material benefits, and pay attention to building a spiritual civilization. 5) The dull and monotonous way in which the people are ordered to attend class in ideological and political work and to master the work under pressure from training authorities is no longer useful, and it is imperative to replace this method with that of giving enlightenment and guidance to trainees, exchanging opinions between teachers and trainees, holding consultations and dialogues, and carrying out teaching activities in a practical and delightful way. We should enhance and improve ideological and political work to adequately suit these new characteristics, vigorously master the objective law of things, pioneer a new road of thinking, and explore new experiences. Efforts should be made to enhance theoretical research and to pay attention to providing theoretical answers for questions

that have cropped up in the course of reform and practice so as to apply the theories to guide or deal with these questions.

In line with the ideological situation outside or within the party, we should do a good job now in dealing with the following three questions:

First, we should unify our understanding on the situation in reforms. The issue of how to adopt an attitude toward the situation has a vital bearing on the programs of conducting reform, opening to the outside world, improving the environment, and rectifying order. By deeply and painstakingly conducting ideological and political work, we should arouse the people to apply the standard of productive forces, the viewpoints of conducting reform and opening to the outside world, and use the materialist dialectical method to correctly analyze and estimate the situation. We should not only fully acknowledge the tremendous achievements in the 10-year period of reforms, but should also look squarely at the difficulties and problems on our future road so as to consciously implement the principle of improving the environment, rectifying order, and deepening the reform drive; to enhance our confidence; to make progress despite difficulties; and to consolidate and develop the current excellent situation.

Second, we should do a good job in conducting education on correctly dealing with the interests of the state, collectives, and individuals. Over the past few years we have talked little about the relationship among the interests of the state, collectives, and individuals. Problems in which some units and individuals have paid attention only to their own interest and have never shown concern for the interest of the state and collectives have become increasingly prominent and concentratedly mirror benefit distributions. Efforts should be made to educate the broad masses of cadres, people, and particularly of party member cadres to correctly deal with the relationship among the interests of the state, collectives, and individuals; between the interests of the whole and the part; between long-term and immediate interests; and between accumulation and consumption. We should also uphold the principle of putting the interests of the state and collectives first. Party members at the grass-roots level in urban areas should follow the principle of becoming rich by working hard and abiding by the law and, in a civilized manner, of having persons who have become wealthy first give a helping hand to backward ones, and of becoming rich through mutual assistance. We should have the people know that our country is still backward, should continue to wage arduous struggle, and should be ready to face difficulties in the next few years. Efforts should be made to adopt every possible way and means to increase production and accumulation and to adequately curtail consumption and practice economy.

Third, we should foster a spiritual pillar and strong spiritual strength. Concentrating on fostering a spiritual pillar in the entire party and among all nationalities in

the current period is for the realization of the programs of building the four modernizations and making China prosperous. In the view of our province, we should stress and carry forward, in line with the grand target of building the four modernizations and making Shandong Province prosperous, the spirit of arousing and encouraging the people to vigorously make progress and to make contributions to the program of the four modernizations. We should work out measures for units at all levels and for various industries and trades to implement the spirit so as to enable every prefecture, industry and trade, enterprise, and village to display the spirit. The Jinan Iron and Steel Company has been prominent in implementing this spirit. Efforts should be made to set forth higher and more strict demands in this regard for party members. We should vigorously advocate and develop the spirit of conducting reform and creating something new in the entire party and province, of serving the people wholeheartedly, of making contributions selflessly, of waging arduous struggle and tenaciously fighting to the bitter end, and of fighting for communism throughout one's life. Efforts should be made to confirm belief in Marxism and to firmly foster the communist world outlook and outlook on life.

In conducting ideological and political work, we should stand clearly on what is advocated and what is opposed. We should make the vast number of party members, cadres, and the masses understand that it is necessary to reform the political system on the premise that the ruling position of the CPC must not be changed; that the specific forms of public ownership can be explored on the premise that the dominant and guiding positions of socialist public ownership must not be changed, that people's democracy should be expanded in a step-by-step manner on the premise of not giving up dictatorship over hostile elements, that new developments in Marxism should be made on the premise of not giving up Marxism's basic principles, stands, viewpoints, and methods; and that the specific measures and steps for reforms and opening up can be readjusted on the premise that the principles and orientations of reforms and opening up must not be changed. Meanwhile, all party members should understand the necessity, under the new situation, of persisting in the vanguard nature of the working class, the organizational principle of the party's democratic centralism and party discipline, the party's three great workstyles, the role of grassroots party organizations in combat effectiveness, the party's exemplary vanguard role, and the goals of party members serving the people, realizing the current tasks, and fighting for the supreme goal of communism. Practice has shown that an advanced ideology should be formed through inculcation and socialist morality should be formed through cultivation. Through deeply conducting ideological work, propaganda, and education, we should have these ideologies, viewpoints, and principles of the most fundamental importance take root among the vast number of party members, cadres, and the masses; effectively resist and eliminate low-quality things that pollute social practice and corrode the people's soul; and create strong

public opinion to promote and safeguard the smooth progress of the two civilizations.

8. We should conscientiously strengthen the leadership over party building.

The key to achieving party building hinges on whether or not party committees strengthen leadership. Party committees at the provincial, city, prefecture, and county levels should certainly place the work concerning administering, building, and using the party on their important and regular work agenda and should be determined to attend to it. Party committees at various levels should set up a system of administering the party and discussing party affairs, regularly hear work reports on party building, make decisions on relevant issues, and organize forces to implement them. In line with the practices of enforcing the economic contracted responsibility system, since 1987 the Jining City party committee has carried out the system of objective management of party affairs. As a result, new vitality has been added to party affairs. In line with reality, all localities throughout the province should generally set up a system of responsibility for party building, carry out the system of management by objective on the premise of each level grasping and guiding the work done by the next lower level, and really implement to the letter the work concerning party building.

We should correctly handle the relationship between party building and economic work and carry out party building closely in line with economic construction. The work at present should be carried out closely with the improvement of the economic environment, the rectification of economic order, and the deepening of reforms, and on the premise of not being divorced from the central link of the economy. Party committees at various levels should persist in the principle of "grasping with two hands" and handle the relationship between party building and work in other fields. The general principle is that party organizations and party members should bring into full play their roles in conducting the central work; make examinations through central work; and study, in line with the problems reflected through practice, ways for strengthening and improving party building. By doing so, we can effectively solve the problem that party building is separated from the economy and other work, and can make the process of building the party itself become a process of leading and participating in various items of work and a process of deepening reform and promoting the development of the economy and various other undertakings.

The introduction of reform, opening, and development of the commodity economy have brought many new problems to party building. To achieve success in party building, we must constantly study the new situation, solve new problems, summarize new experiences, and strengthen leadership over concrete work. Viewing the experiences introduced at this meeting alone, at least the following several points are worthy of advocacy and

emulation: 1) Adherence to the principle of "first inside the party and then outside the party" in dealing with major affairs is conducive to fully exploiting the role of party organizations and party members. 2) Introduction of management by objective for party building is conducive to establishing and implementing the responsibility system. 3) Adherence to the system of making party affairs visible to the public, the method of integrating appraisal by the masses with supervision by the masses, and the establishment of necessary systems are conducive to solving the problems with unhealthy party styles and backward party members. 4) Methods of adapting oneself to the changed new situation and improving the activities of party organizations and members in a timely manner, such as establishing the system of taking on the work of households to spur the work of other areas and establishing official business discussion groups, are conducive to carrying out party work. 5) Paying attention to exploiting the role of party schools and party member activity offices at all levels, and adhering to the party day activity and the system of "three meetings and one class" is conducive to enlivening party life, to training party members, and to improving the expertise of party members. 6) Paying attention to studying and solving new contradictions and difficulties emerging within the party is conducive to strengthening the unity and vitality of the party. 7) Strictly enforcing party discipline and being strict and impartial in meting out rewards and punishment are conducive to overcoming a listless and weak workstyle and enhancing the combat capacity of party organizations. 8) Organizing party-building forces in all fields to work with one heart and one mind under the unified leadership of the party committees is conducive to creating a new situation in party building. Of course, there are also many other effective experiences. But as

long as we popularize these good methods in a well-guided and planned manner, we will surely yield great results in our work concerning party building.

We should pay attention to strengthening the building of the ranks of cadres engaged in party affairs work. Party committees should help such cadres improve political and professional expertise, and should encourage such cadres to conduct the work in a creative manner. At the same time, party committees should be concerned with such cadres and should solve their practical problems in livelihood, remuneration, and work. Cadres engaged in work concerning party affairs should be self-respectful, self-confident, and self-improved; and should attend to their own jobs in order to be worthy of the heavy trust of the party and the people.

The tasks facing party building are arduous and difficult, but there are many favorable factors for achieving success in party building. First, strengthening party building is an urgent aspiration and demand of the entire party. Second, our party organizations have great vitality to strengthen the building of themselves. Third, we have already had a number of typical examples for successfully doing the work of party building under the new situation. Fourth, the most important thing is that the party Central Committee has already made important policy decisions to strengthen party building. Therefore, we should be fully confident and be resolute in doing work concerning party building. So long as party committees at all levels in the province really unify their understanding, go into action in unison, and conduct the work in a down-to-earth manner, they will certainly achieve success in party building.

# **Minister Delivers New, Official Version of '228 Incident'**

40050550 Taipei TZULI WANPAO in Chinese  
22 Apr 89 p 5

["Ministry of Defense Reports on Course of '228 Incident'; Principle Cause of Incident—Communist-Instigated Revolt; Casualties—398 Dead, 2131 Injured, 72 Missing]

[Text]Minister of Interior Hsu Shui-Teh, Minister of National Defense Cheng Wei-Yuan, and Minister of Justice Hsiao T'ian-Tsan complied this morning with a request to deliver a special report on the events of the "228 Incident" to a joint meeting of the Legislative Yuan Committee on the Interior, Committee on National Defense, and Committee on Judicial Affairs. Apart from a report on the investigation carried out by the Control Yuan's former investigator Yang Liang-Kung 2799 0081 0501, and a conciliatory speech by former Minister of Defense Pai Ch'ung-Hsi 4101 1504 4406, this is the first time that authorities from the ruling party have formally issued an "official version" of the "228 Incident" in the 42 years since it occurred. However, the content of the reports by the Ministry of Justice and the Ministry of the Interior were excessively scanty and were completely without new significance.

The report of the Minister of National Defense, Cheng Wei-Yuan, on the other hand, gave a relatively detailed account. Its casualty estimates for the incident still differ greatly from civilian estimates. The principal cause of the incident was attributed to "communist instigation and manipulation." The following is our record of Cheng Wei-Yuan's report, which we publish here for our readers' reference.

## **Casualties and Treatment of Criminals**

### **I. Statistics on the number of casualties:**

Statistics in connection with the "228 Incident" were based on results of the government investigation that was carried out at the time of the incident. They are recounted as follows:

1. Yang Liang-Kung, Control Yuan investigator for Fukien and Taiwan, provided the following statistics from his report in April 1947: 1,391 soldiers, police, and government and school employees were killed or injured, and seven were reported missing, and 614 civilians and hooligans were killed or injured. The total number of casualties was 2,012.

2. Minister of National Defense, General Pai Ch'ung-Hsi, reported the following statistics on 7 April 1947 on the anniversary of the establishment of the Central Leadership (based on the statistics gathered by the former Taiwan Garrison General Headquarters as of March 31). Among the military and police, 14 officers and 74 rank-and-file soldiers were killed; 108 officers and 218 rank-and-file soldiers were injured; while the fate of two officers and 24 rank-and-file soldiers remained unknown. The total of dead, injured, and disappeared officers and soldiers came to 440. In the various counties and cities, 304 government and school employees, hooligans, and citizens, were killed, while 1,556 were injured. The casualty total was 1,860 people. The total number of people killed, injured, or disappeared was 2,200.

3. On 26 May 1947, the former Taiwan Garrison General Headquarters held a press conference, and stated during the question and answer session that their statistics on military and civilian casualties throughout the province were based on their own investigation and that of the Civilian Policy Department. Among military officers, 16 were killed, 135 were injured, and the fate of three remains unknown. Among rank-and-file soldiers, 74 were killed, 262 were injured, and the fate of 37 remains unknown. Among government and school employees, 64 were killed, 1,351 were injured, and the fate of 24 remains unknown. A total of 398 people were killed, 2,131 were injured, and 72 people disappeared.

Of the three sets of statistics listed above, those of the former Taiwan Garrison General Headquarters were issued at a later date (26 May 1947), and should be more accurate.

## **Statistics on Private and Public Property Loss Sustained in the 228 Incident**

Monetary unit: Taiwan dollar

City or County	Public Losses	Private Losses	Total
Taipei County	8,000,000	12,348,900	20,348,900
Hsinchu County	4,754,049	32,829,258	37,583,307
Taichung County	890,000	35,000,000	35,890,000
Tainan County	3,513,900	7,927,280	11,441,180
Kaohsiung County	No figures available	1,501,500	1,501,500
Taitung County	138,766	1,520,960	1,659,726
Hualien County	1,574,500	7,133,930	8,708,430
Penghu County			
Taipei City	125,619,373	228,712,882	354,332,255
Keelung City	4,880,630	2,622,504	7,503,134
Hsinchu City	8,022,366	19,841,658	27,864,024

**Statistics on Private and Public Property Loss Sustained in the 228 Incident**

Monetary unit: Taiwan dollar

City or County	Public Losses	Private Losses	Total
Taichung City	1,321,358	8,540,615	9,861,963
Changhua City	Being investigated	120,500	120,500
Chiayi City	6,566,846	28,481,338	35,048,184
Kaohsiung City	7,810,651	36,279,240	44,089,891
Pingtung City	1,202,225	9,726,227	20,928,452
Entire province	175,097,331	441,066,280	616,163,611

Source: Secret documents leaked from the History and Political Division, Ministry of National Defense

**II. Settlement of Criminal Cases**

**1. Principles of Settlement**

According to the generous terms of settlement called for by the instructions of Chairman Chiang and the content of articles that have appeared in various separate publications, criminals under detention or arrest and principles of settlement have been classified into the following four categories:

i) Rebels: Principal participants in the revolt, whether communists, hooligans, students, government or school employees, or citizens, will all be dealt with severely. Taking individual circumstances into account, units detaining persons who joined in at the instigation of the principal participants may deal with these people leniently.

ii) Communists: Those communists who participated in the revolt will be dealt with severely according to the law. Those who did not participate and are willing to turn over a new leaf may be committed to reform school. They will be under the jurisdiction of the organ in charge.

iii) Hooligans: Those hooligans who are also communists or who participated in the revolt, will be dealt with severely. Those who did not participate may be committed to reform school by the organ in charge.

iv) Students: Those who participated in the revolt will be punished less severely in consideration of their youth and ignorance. Those who participated at the instigation of others will all be released.

**2. Handling the Situation of the Prisoners from the "228 Incident"**

More than 40 years have passed, and there are no records from which to study. According to newspaper accounts from that time (27 May 1947), 585 people were arrested after the incident. Of these, 68 people were sentenced for

crimes, 291 people were released, 109 people with less serious situations were sent to reform schools, and 117 people were sent back to the units that had originally detained them or were sent to the courts to be dealt with.

**Communist Instigation and Exploitation of the Revolt**

1. The Taiwanese Communists had already established deep roots during the period of Japanese occupation. Although Japanese police uncovered them and broke them up, remnants of their power continued to exist. When Japan surrendered, all the Taiwanese Communists who had been arrested were freed, and their dead ashes burned to life again. The communists operated vigorously, reestablishing old headquarters and strengthening their organization. They recruited among the people to increase their strength. In August 1946, Ts'ai Hsiao-Ch'ian [5591 1321 0051] returned to Taiwan at the orders of the Chinese Communists to establish the Communist Party's "Taiwan Provincial Work Committee," and carry out organizational work based on the foundation provided by the Taiwanese Communists. Within a short time they had established more than ten "work committees" and party branches in Taipei, Hsinchu, Taichung, Tainan, Chiayi, and Kaohsiung. To expedite organization, three special work groups were established in Taipei, Taichung, and Tainan. In addition, the Chinese Communists dispatched other members to infiltrate Taiwan, where they established "Southeast Communications Station No 7," the "Taiwan Provincial Work Regiment," the "Fukien-Taiwan Regional Political Instruction Unit," and the "Taiwan Communist Youth League." These organizations carried out rebellion and subversion on all fronts. They exploited the chaotic and unstable conditions that followed recovery of Taiwan to sow disunity and incite turmoil.

2. After its establishment, the Taiwan Provincial Work Committee spared no effort to infiltrate organizations at the highest levels of society, such as party and government organs, representative bodies, mass organizations, and mass media organs. During the "228 Incident," the two most influential political organizations, the Taiwan

Political Reconstruction Society and the Taiwan Political and Cultural Advancement Society, were both infiltrated and controlled by communists, such as the former organization's Wang Wan-Teh [3769 8001 1795] and Wang T'ien-Teng [3769 3240 3597], and the latter organization's Hsu Nai-Ch'ang [6079 0035 2490] and Wang Pai-Yuan [3769 4101 3220], all of whom were important Taiwanese Communists. In October, 1946, the Taiwan Provincial Work Committee formulated its "Concrete Program for the Current Period," which they distributed to their district work committees and party branches to be carried out. Wang T'ien-Teng's "Program To Settle the 228 Incident" was based on the "Concrete Program."

3. After the "Committee To Settle the 228 Incident" was set up, communists within carried out their struggle to seize power and turned it into an instrument in service of their plot to seize political power. The communist Su Hsin [5685 2450] fled to the mainland after the incident and wrote "Why the 228 Rebellion Failed," in which he revealed that "at that time, there were no party members (referring to the Chinese Communist Party) in the 'Committee To Settle the 228 Incident,' so the underground party immediately persuaded Wang T'ien-Teng and Lin Jih-Kao [2651 2480 7559] (both of whom were from the Taiwanese Communist Party) to serve as agents, and through them enlisted many others, thus forming a powerful leftist faction. They obtained the support of the centrists, isolated Hwang Ch'ao-Ch'in [7806 2600 3830] and his group of rightists, and attacked the enemy. In seven days of struggle, the leftists controlled the entire Settlement Committee. Wang T'ien-Teng and Lin Jih-Kao carried out the struggle exactly according to the program and instructions of the underground party. At the time, the underground party's Ts'ai Hsiao-Ch'ian [5591 1321 0051], Hsiao Lai-Fu [5618 0171 4395], P'an Ch'in-Hsin [3382 2953 0207], Ts'ai Tzu-Min [5591 1311 3046], and Su Hsin served as the staff for Wang T'ien-Teng and Lin Jih-Kao. We prepared all of their proposals and speeches for them. The 32 articles in the 'Program To Deal With the 228 Incident' (increased to 42 articles the following day by some of the representatives) were prepared by us and approved by the underground party."

4. The day following the "Tobacco Incident," the first rebellious protesters to appear were led by the Taiwan Provincial Work Committee member Wu Yu-Teh [0702 5940 1795]. On 5 March, Wu called a meeting of students from National Taiwan University and other universities. They resolved to register en masse as members of the Communist Party. Pan-Ch'iao was declared by the Taiwanese Communists to be "the first place in the entire province to respond in support of the Taipei riots." They were led by Taiwanese Communist cadres Lin Liang-Ts'ai [2651 2856 2624] and Lin Jih-Kao. Other areas where the armed rebellion was the fiercest were also under the leadership of communists, such as Taichung's Hsieh Hsueh-Hung [6200 7185 4767] and Yang K'e-Huang [2254 0344 1929]; Chiayi's Ch'en Fu-Chih [7115 1381 1788]; Kaohsiung's T'u Kuang-Ming [3205 0342 0682]; and Touliau's Ch'en Suan-Ti [7115 4647 0966]. On 8 March, in

a broadcast to Taiwan, the Chinese Communists' Radio Yen-an expressed support for the so-called "armed self-defense of the Taiwan people" and offered six "lessons from experience." On 23 March (five days after the Nationalist Army's recovery of Yen-an), the Chinese Communists, still using the name of Radio Yen-an, issued six instructions to the Taiwan Provincial Work Committee. It was advised that "since the armed struggle has begun, compromise must be opposed." The importance that the Chinese Communists attached to the incident is amply proved. In May 1948, the Chinese Communists' East China Bureau called a secret meeting of Taiwan cadres in Hong Kong devoted to the subject of the "228 Incident" in which they made a summary and self-examination concerning the lessons learned by the Chinese Communist Party as a result of their participation in and leadership of the "228 Incident." In 1975, during a roundtable discussion held in commemoration of the 28th anniversary of the "228 Incident," Liao Ch'eng-Chih [1675 2110 1807], chairman of the Overseas Chinese Affairs Committee of the Chinese Communists' State Council, acknowledged in an even more public and barefaced manner that the "228 Incident" was led by organs of the Communist Party. He stated that "the 228 Incident was one aspect of the New Democratic Revolution which was carried out under the leadership of the Chinese Communist Party."

#### Interpretation of the Incident

1. The "228 Incident" was originally a routine matter in which the Taipei government rooted out private dealing in tobacco, but later, the instigation and manipulation of provocateurs and communists caused it to turn into a large-scale, coordinated rebellion in several large cities. Because the great majority of participants were citizens who had been incited and manipulated, the government dealt with them according to "peaceful and lenient" principles. Because the situation grew quite serious, the Nationalist Army's 21st Division, which happened to have been dispatched at that time to Taiwan with the original purpose of defense, participated in pacification of the rebellion. In order to preserve social stability and the life, property, and safety of the people, they pursued and arrested rebels and armed organizations that had fled to the mountains.

2. With regard to the responsibility for this incident, Fu Hsueh-T'ung [0265 1331 6639] and others who instigated the incident, those participants who committed the most seriously illegal acts, and those who engaged in looting, were all dealt with according to the law. Although Hsieh Hsueh-Hung and the 30 other communists who were the principal planners and controllers of the incident from behind the scenes fled to Hong Kong or the mainland after the incident, warrants were also issued for their arrest. During the rebellion, soldiers, police, government employees, and citizens all suffered injuries and death. As for those thugs who met with resistance when they attacked soldiers and police in order to seize guns and weapons and force them to surrender, not only did both sides suffer injuries and

death, but in resisting the illegal aggression of the thugs, the soldiers and police were carrying out their duty to preserve social order and protect the life, property, and safety of the people. The actions they took were necessary and quite appropriate.

3. Those who participated in the incident were a very small portion of the entire population of Taiwan. The

great majority of Taiwanese compatriots adopted a rational attitude toward the incident. They not only showed concern for their compatriots, going all out to save innocent people who had met with harm, but they were, in fact, a major reason why the rebellion was put down within a short period. At the same time, they were a basic reason why Taiwan was able to recover and develop so quickly following the incident.

**Table Showing Troop Strength of Taiwan Garrison Command and Every Military Department at the Time of the 228 Incident**

Department		Name of Commander	Location	Troop Strength			Comments
				Officers	Rank and File	Total	
				Regulars	Extras		
General Headquarters	Headquarters	Ch'en Yi	Taipei	301	13	204	518
General Headquarters	Military Court	Ch'ien Kuo-Ch'eng	Taipei	18		11	29 No battle capability
General Headquarters	War Criminal Detention Center	Mao Ying-Chang	Taipei	6		6	12 No battle capability
General Headquarters	Special Task Battalion	Shen Yun-Shan	Taipei	36		591	627 General duties
General Headquarters	Communications Company	Wang Ken-Jung	Taipei	7		164	171 No battle capability
General Headquarters	Subtotals			368	13	976	1,357
Reorganized 21st Division, Independent Regiment		Ho Chun-Chang	Kaohsiung	196		2,731	3,127 Battle unit; main force performs guard duties
Taiwan Divisional Headquarters		Liu Chung-Ti	Taipei	159		187	346 No battle capability
Supply Division		Li Ta-Teh	Taipei	871	29	3,070	3,970 Apart from two battalions guarding warehouses, no other battalion possesses battle capability
Military Police, 4th Regiment		Chang Mu-T'ao	Taipei	166		1,515	1,681 General duties
Air Defense, 4th Branch		Ch'en Yi	Taipei	14		17	31 No battle capability
21st Transport Regiment		Liao Chung-Kuo	Taipei	172		1,344	1,516 No battle capability
Makung Fort		Shi Wen-Chu	Makung	231	4	1,626	1,861 Capable only of garrison duty
Kaohsiung		P'eng Meng-Ch'i	Kaohsiung	292	53	2,448	2,793 Capable only of garrison duty



Keelung Fort	Shi Hung-Hsi	Keelung	258	35	2,581	2,874	Capable only of garrison duty
Central Training Regiment, 1st Officers Brigade	Chu Jui-Hsiang	Taipei	451		88	539	No battle capability
Aircraft Factory No 3	Yun Tuo	Taichung	152	9	729	886	No battle capability
Navy, Taiwan-Penghu Assistant Commander's Office	Kao Ju-Feng	Kaohsiung	299		2,098	2,397	No battle capability
Air Force, Taiwan Regional Headquarters	Hao Chung-Ho	Taipei	246	47	1,846	238	No battle capability
Combined Services Headquarters, Discipline Dept	Shih Ming-Chih	Taipei	2		8	10	No battle capability
Radio Station No 9							
Combined Services Headquarters, District No 5	Hsiung Tah-Shu	Taipei	28		15	43	No battle capability
Radio Station							
Combined Services Headquarters, Radio Station No 96	Liu Chung-Wen	Taipei	2		9	11	No battle capability
Ministry of National Defense, Special Electronics	Yeh Yen-Shih	Taipei	32		50	82	No battle capability
Repair Station No 6							
Combined Services Headquarters, Taiwan General Hospital	Wu Kuo-Hsing	Taipei	151		486	633	No battle capability
Totals			4,090	190	22,016	26,850	

Source: Secret documents leaked from the History and Political Division, Ministry of National Defense